



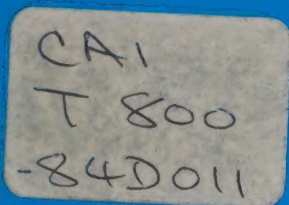
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TASK FORCE ON DEEP-SEA SHIPPING

Report to the Minister of Transport

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**Report to the
Minister of Transport**



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Gunnar K. Sletmo, Chairman

APRIL 1985

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on
Deep-Sea
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Groupe de travail
sur le
transport maritime
de haute mer

June 1985, Ottawa

The Honourable Don Mazankowski
Minister of Transport
House of Commons
Ottawa, Ontario

Dear Sir,

On behalf of the members of the Task Force
on Deep-Sea Shipping, I have the honour to present
for your consideration the following report.

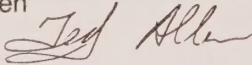
Respectfully,

Gunnar K. Sletmo
Chairman

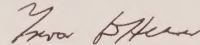
Task Force Members' Signatures

We, the undersigned, support the recommendations contained in this report.

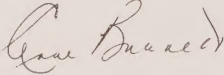
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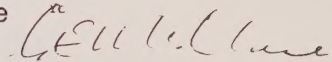
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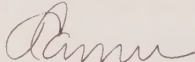
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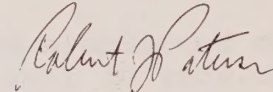
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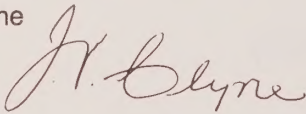
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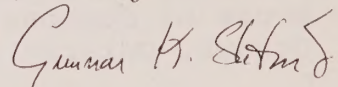
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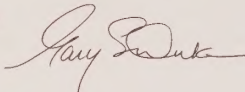
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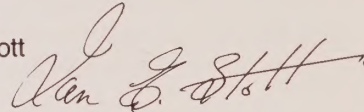
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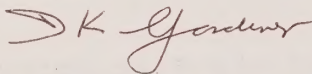
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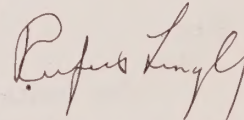
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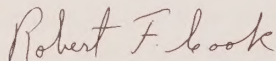


Rupert J. Tingley

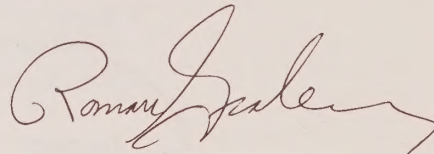


We, the undersigned, do not support the recommendations contained in this report and submit dissenting views.

Robert F. Cook



Roman Gralewicz



PREFACE

The Task Force on Deep-Sea Shipping was established by the Minister of Transport in April of 1984. Its mandate was to evaluate changing conditions in the international shipping market and the possible need for measures to encourage the expansion of the Canadian deep-sea fleet.

The Task Force functioned as an autonomous group, all members serving in a personal capacity. Its fourteen members represented a cross-section of shipowners, labour, users of shipping services, and academics.

The Task Force held its first meeting on May 1, 1984. In its work, it considered previous studies made available to it by the Minister. Advertisements placed in newspapers across the country resulted in a considerable number of submissions being received from individuals, corporations, associations and governments. Additionally, various experts briefed the Task Force on specific matters related to the terms of reference.

The final meeting of the Task Force was held in Ottawa, on April 19, 1985. At that time, twelve members signified their agreement with the recommendations presented in this report. Two members not present at the last meeting subsequently submitted dissenting views in a document included under the present cover. Its late arrival prevented the Task Force from reviewing the text of the dissenting members.

In its work, the Task Force benefitted from the invaluable assistance of many groups and individuals as witnessed by the list of submitters and technical experts presented in appendices to this report. Many others took time out of busy schedules to provide valuable advice and information. The Task Force expresses its sincere thanks to all.

The Chairman was assisted by a small and highly competent staff. Gail Zahradnitzky, who served as Executive Secretary, played a crucial role in organizing the work of the Task Force, and assisted in the drafting of the report. Janet Kavanagh joined the Task Force Secretariat in July 1984, and since that time was involved in all aspects of the work, including drafting. Bernard Clark who worked with us from the fall of 1984 brought invaluable technical and practical shipping expertise to our group. The Chairman gratefully acknowledges the outstanding performance of this dedicated team whose efforts were essential to the completion of this report.

Other staff members who provided superb technical support, often under enormous time pressure, include Rita Amisson and Paulette Gour. John Bertorelli, a summer student at Transport Canada, is also thanked for able and enthusiastic support.



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EXECUTIVE SUMMARY

1. The Task Force on Deep-Sea Shipping was established by the Minister of Transport in April of 1984. The fourteen member Task Force composed of shippers, shipowners, labour representatives and academics was asked to determine whether the international shipping market has changed to the detriment of Canadian trade interests and to recommend appropriate responses to these changes. Further, in its report to the Minister, it would consider whether the government should encourage the development of a Canadian merchant marine for deep-sea operations.

2. Canada's foreign trade is a major source of economic growth for this country. It is estimated that one in four jobs is linked to export activity. The availability of competitive, efficient deep-sea shipping services is critical in the overall competitiveness of Canada's overseas exports.

3. Canadian flag deep-sea shipping prospered in the 19th century. With the exceptions of the two World Wars, Canadian flag deep-sea shipping has never regained the level of activity enjoyed in the last century. The creation of the wartime fleets was a response to the unusual and intensified shipping requirements of a war situation with the government being the primary owner and operator of deep-sea vessels.

In spite of considerable efforts by government to transfer the merchant fleets to private ownership, particularly following World War II, these vessels were unable to operate profitably in peacetime without government aid.

4. In 1949, after various options such as subsidization, modernization and reduced fleet size had been considered, it was determined that Canadian deep-sea ships were unable to compete against low cost, foreign flag rivals. By 1950, Canada had adopted a policy of laissez-faire and thereafter increasingly relied on foreign flag vessels for its ocean transportation needs.

5. Over the last two decades, international deep-sea shipping has undergone far-reaching changes of an economic, technological and political nature. As the international shipping industry has been forced to adjust to these changes, there has been a major shift in ownership away from the traditional maritime countries of the OECD towards flags of convenience such as those of Liberia and Panama.

6. Significant change has been an increased involvement by governments in international shipping markets, usually in support of their respective national lines. Measures involved include direct subsidies, special tax provisions and cargo reservation.

Up to the present time, changes in international shipping markets have been generally favorable to Canadian trade interests. In its current form, intervention by foreign governments does not constitute a serious threat to Canada and may actually have benefitted Canadian shippers. However, there have been isolated cases where Canadian shipping and trade interests have experienced difficulties as a result of intervention by foreign governments.

7. Shippers insist on the necessity to be able to select freely ocean carriers and are strongly opposed to any Canadian flag proposals that could result in increased freight rates, subsidies or cargo reservation programs.

8. There is in Canada a core of international shipping expertise extending over a wide range of activities from ship management and chartering to marine insurance and freight-forwarding. It is in Canada's interest to maintain and strengthen the presence of such expertise in this country.

9. Cost figures demonstrate the great difficulty that high income countries including maritime OECD nations encounter in operating in the present deep-sea shipping environment. In Canada, the present fiscal and regulatory regime adds an additional burden which effectively prevents shipowners from competing internationally under Canadian flag except under special market circumstances which tend to be of limited duration.

10. Many submissions have highlighted the need for a Canadian flag fleet to meet national security obligations. In commercial ocean transportation, Canada's most critical need is for bulk carriers. Such vessels have limited strategic value and the Task Force concludes that strategic needs cannot be used as a basis for the creation of a Canadian flag merchant marine. Instead, arrangements should be made which would facilitate the use of Canadian owned vessels under foreign flag in the case of a national emergency.

11. The Task Force after considering the issues before it arrived at two basic questions that must be addressed:

- (i) what are Canada's deep-sea transportation needs?
- (ii) to what extent could these needs be satisfied by the use of Canadian flag vessels manned by Canadian crews?

12. The Task Force reviewed at length a range of options for Canada's future deep-sea policy. Based on this review and analysis, the following five recommendations are submitted by the Task Force majority for consideration by the federal government.

Recommendation 1 – It is recommended that the federal government not take steps towards the establishment of a core deep-sea fleet under Canadian flag.

Recommendation 2 – It is recommended that Canada, as a major importing and exporting nation with significant reliance on ocean transportation, encourage and strengthen its expertise and interests in international shipping.

Recommendation 3 – It is recommended that the government create a fiscal environment conducive to the establishment and maintenance of international ship management activities in Canada.

Recommendation 4 – It is recommended that an Advisory Board consisting of representatives from industry, labour and government be created to monitor on an ongoing basis the international shipping environment. This Advisory Board should be created by and report to a Committee of Ministers responsible for transport, trade, external affairs, and industry.

It is further recommended that, upon the advice and counsel of the Advisory Board, the government consider mechanisms enabling it to react in the event of intervention in Canadian shipping markets by foreign governments.

Recommendation 5 – It is recommended that further consideration be given to certain issues which arose during deliberations of the Task Force and which were deemed outside its mandate or technical competence.

- (a) It is suggested that the federal government initiate discussions with Canadian shipowners in order to develop an agreement of understanding on the availability of Canadian owned deep-sea vessels in an emergency situation.

- (b) It is suggested that an appropriate multidisciplinary group be appointed to coordinate and promote Canadian interests in the field of Arctic shipping.
- (c) It is suggested that the impact of economic and technical rules and regulations on the ability of Canadian shipowners to compete in international shipping markets be reviewed.

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CHAPTER 1

THE ROLE OF MARITIME TRANSPORTATION IN CANADA'S FOREIGN TRADE

1.0 Introduction

Canada's economic strength depends upon the ability of our goods and services to compete in foreign markets. Today, one third of Canadian jobs are directly related to the export of resource and manufactured products. In addition to the nearly three million jobs in exporting industries, many more are indirectly related to foreign trade. A significant part of this trade is with overseas countries and it is affected by the quality and cost of deep-sea shipping serving Canada.

The relationship between shipping services and the export of goods and commodities is symbiotic. They will either flourish or perish together. New transportation methods and technology opened up new markets and contributed to a greater and more efficient division of labour between nations. This happened first on a regional and then on a worldwide scale.

This chapter provides an overview of the characteristics of Canada's foreign trade and the importance of foreign flag shipping in Canadian export trade.

1.1 Canada's Foreign Trade

Canada relies increasingly on exports as a source of employment and economic growth. Foreign trade accounts for a growing share of Canada's economy. In 1950, exports represented 16.9 percent of our Gross National Product (GNP). By 1983, this share had grown to 22.8 percent, and it now stands close to 30 percent. In the same year, Canadian exports of goods amounted to \$91 billion.

Exports remain the best hope for the creation of additional jobs. To achieve such job creation, we need to diversify both the composition of our exports and the geographic dispersion of our overseas markets. In the past, traditional resource-based products have made up the bulk of our exports. Canada is now expanding its foreign sales of various manufactured products which require greater skills and know-how. Many of these products are produced by small or medium sized firms which are often newcomers to foreign trade. Many developing countries in Asia, Africa and elsewhere are becoming important customers for Canada. This has helped to reduce the past predominance of Western Europe in our overseas markets.

In order to sustain an export driven expansion, it is essential that we strive to be competitive in all aspects of foreign trade. Our products must be competitive in price, quality and design. Our marketing and distribution systems, including transportation, must be competitive in international markets. To export is to measure one's productivity and efficiency against the best in the world.

Foreign trade is not a one-way street. The development of an increasingly global economy is based on a continuing division of labour among nations. Canada participates actively in this international exchange also as an importer. The share of Canadian imports relative to its GNP has tended to remain stable over time. In 1950, imports represented 17 percent of GNP compared to 18.4 percent in 1983 when Canada's imports amounted to \$76 billion.

The maintenance of competitive conditions in our import markets is fundamental to the welfare of the Canadian economy. Certain imported intermediary and semi-finished goods, as well as raw materials, are essential to Canadian manufacturing industries. Other imports are destined for final consumption in Canada and benefit consumers by stimulating competition in domestic markets. The efficiency of import markets and the distribution and transportation of imported goods have a direct bearing upon domestic competition and price levels.

1.2 Deep-Sea Transportation in Canada's Foreign Trade

The United States accounts for more than two thirds of Canada's exports. Generally speaking, our trade with the United States does not require deep-sea transportation. For this reason, this report excludes trade with the United States and the following tables and graphs relate to Canada's trade with countries other than the United States.

Exporters to non-U.S. markets are generally limited to two modes of freight transportation, ocean and air. While air freight may amount to as much as 20 percent of the value of foreign trade with some regions, the figure is typically closer to ten percent. In volume or tonnage terms, air freight is of minimal importance, generally about one percent. This means that Canada depends on deep-sea shipping for 99 percent of its trade with countries other than the United States.

Table 1.1 provides a summary of our waterborne trade with major geographic regions for the years 1978 and 1983. It can be seen that while our trade with Western Europe has remained important, it has been surpassed by trade with Asia, notably the Far East. In recent years, Eastern Europe and the Middle East have also greatly increased their relative importance to Canada as export markets. In general, Canada's overseas trade is becoming more geographically dispersed, thereby reducing the traditional reliance on Western Europe and, more specifically, the United Kingdom as our major overseas customers.

Table 1.1
CANADIAN OVERSEAS EXPORTS BY DESTINATION

(excludes trade with the U.S.)

Millions

	1978		1983	
Destination	Total Export Value	Percent Waterborne	Total Export Value	Percent Waterborne
Western Europe	\$ 5,000	89.7	\$ 6,501	86.0
Eastern Europe	907	98.4	2,090	99.0
Middle East	630	78.8	1,260	89.2
Africa	507	90.5	874	93.2
Asia	4,687	97.4	8,287	96.0
Oceania	467	94.6	503	87.4
South America	1,344	92.3	1,195	90.8
Central America & Antilles	865	88.7	1,269	89.8
TOTAL	14,408	92.4	21,979	93.2

Sources: Statistics Canada, **Annual Exports**, Cat. 65-202, 1980 and 1983, and Shipping Policy Branch, Transport Canada.

Table 1.2 provides figures on the relative importance by region of Canada's waterborne imports. Again, a certain trend towards greater diversification can be detected, Asia being the most important region followed by Western Europe. It is worth noting that South and Central America with the Antilles together represent a significant supply source for the Canadian economy.

Taken together, Tables 1.1 and 1.2 provide a picture of the increasing geographic diversity of Canada's oceanborne trade. As Canada's foreign trade continues to expand, its links with the global economy can be expected to become even more diversified and far flung. This trend places strong demands on the ability of deep-sea shipping resources to supply flexible and competitive services on a worldwide basis. It is therefore essential for shipowners and other ship operators to be able to respond quickly to changing trade patterns. In the case of many products and markets, the ability to provide integrated worldwide shipping services will be a condition for commercial success.

The value of Canada's oceanborne trade for exports and imports combined was around \$40 billion annually in the early 1980's. It is sometimes assumed that ocean freight rates represent about 10 percent of the value of goods transported. Such an average figure for the ratio of freight to the value of goods is questionable as it varies tremendously with the type and value of goods carried. For many high value, industrial goods usually carried by scheduled or liner services*, the ten percent figure may be on the high side. For basic commodities and low value goods, freight rates may amount to as much as thirty percent or more of the value of the cargo.

* For a definition of this and other maritime terms see glossary included in appendices to this report.

Table 1.2
CANADIAN OVERSEAS IMPORTS BY ORIGIN

(excludes trade with U.S.)

Millions

Destination	1978		1983	
	Total Import Value	Percent Waterborne	Total Import Value	Percent Waterborne
Western Europe	\$ 4,793	85	\$ 6,016	80
Eastern Europe	215	85	211	84
Middle East	1,577	99	845	98
Africa	348	95	644	95
Asia	3,414	89	7,157	91
Oceania	384	82	497	95
South America	1,826	96	1,861	91
Central America & Antilles	486	81	1,459	83
TOTAL	13,043	89	18,689	87

Sources: Unpublished data from Statistics Canada and Shipping Policy Branch, Transport Canada.

In fact there is no precise estimation of Canada's deep-sea freight bill in existence. Thus, while a figure of \$5 billion is often quoted, it must be borne in mind that this can only serve as an indication of the order of magnitude. Whatever the exact figure is, the economic cost of deep-sea transportation is significant to Canada. Freight charges are eventually borne by consumers. Therefore all consumers have a stake in the efficiency of deep-sea shipping.

Efficient freight transportation within Canada has been seen as a key element in our domestic economic development. With the growing importance of foreign trade, we must be equally concerned with promoting and sustaining efficiency in international transportation. In the case of overseas markets, this means deep-sea shipping.

1.3 The Commodity Structure of Canada's Overseas Trade

Transportation costs do not equally affect all products in foreign trade. Products which have a high value per weight or volume unit may not be severely hampered by high freight rates. For instance, a freight charge of \$1,000 on a machine worth \$50,000 may not significantly limit its marketability. The same freight charge on the shipment of a basic commodity worth \$3,000 may make it uncompetitive. In general, low value, standardized products tend to be more sensitive to freight charges than high value, differentiated products. It is important therefore to consider Canada's maritime transportation policies in the light of the composition of our foreign trade.

Graph 1.A shows that four commodities dominate our export tonnage. In 1982, grain, iron ore, coal, and forest products jointly represented 78.1 percent of our deep-sea exports. These same commodities constituted 51.6 percent of the value of exports. The average value per tonne of oceanborne exports amounted to approximately \$230. This is only about one fourth of the average value per tonne of imports which was close to \$900. This very low unit value for our exports, and in particular the principal export commodities, means that they are very sensitive to transportation costs.

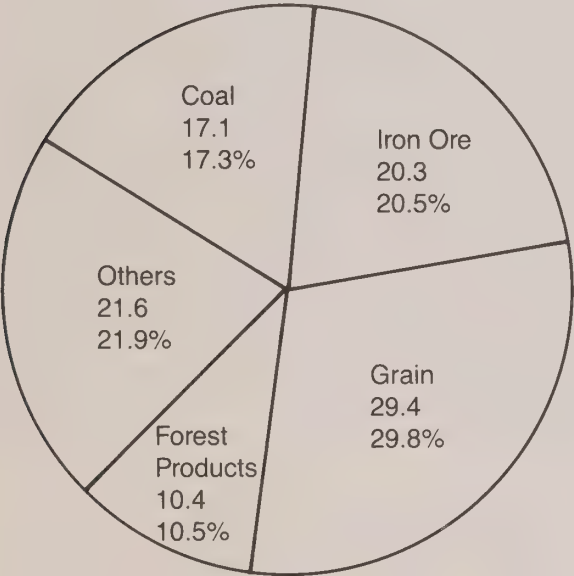
Graph 1.A

COMPOSITION OF CANADIAN DEEP-SEA TRADE - EXPORTS

1982

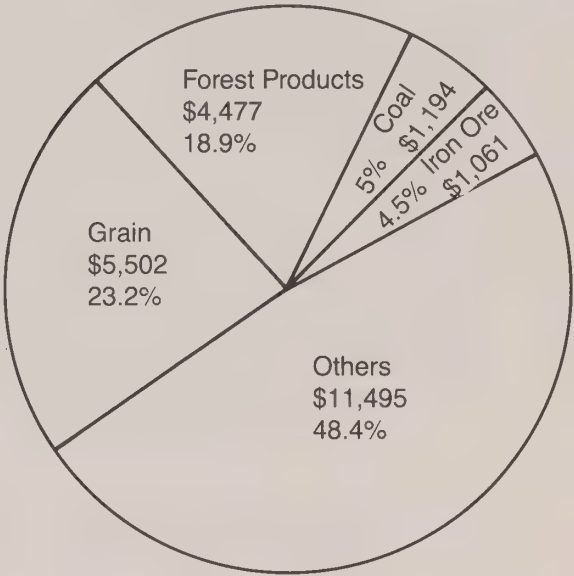
(Excludes Canada - U.S. trade)

millions of tonnes and percent



Total: 98.8 million tonnes

millions of dollars and percent



Total: \$23,729 millions

Source: Shipping Policy Branch, Transport Canada

The most striking feature of Graph 1.B is the importance of the “others” category which consists of numerous industrial products, representing two thirds of the value of oceanborne imports. The great diversity of Canada’s imports cannot be easily illustrated in graphic form. Bulk products, with the exception of petroleum and bauxite play only a modest role on the import side.

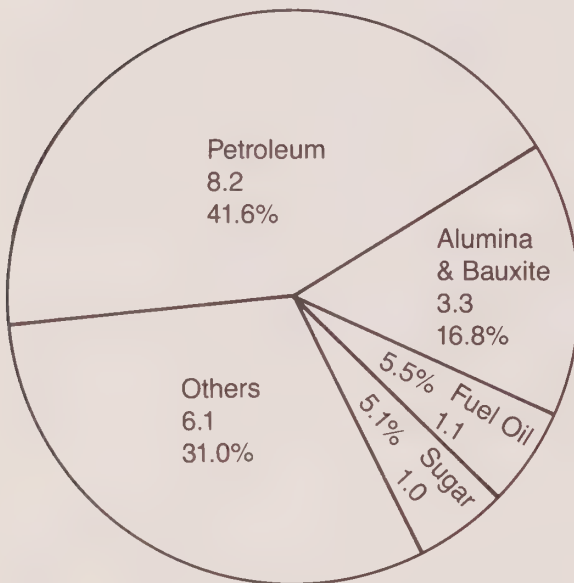
Graph 1.B

COMPOSITION OF CANADIAN DEEP-SEA TRADE - IMPORTS

1982

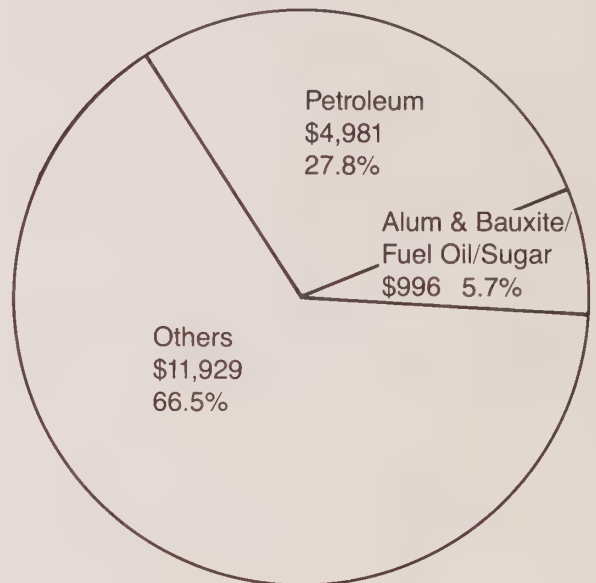
(Excludes U.S. - Canada trade)

millions of tonnes and percent



Total: 19.7 million tonnes

millions of dollars and percent



Total: \$17,906 millions

Source: Shipping Policy Branch, Transport Canada

The significance of the previous discussion is that any evaluation of our ocean transportation needs must explicitly consider the commodity composition of our foreign trade. On the export side, our trade shares many of the characteristics of the resource trade of developing countries, i.e. a preponderance of relatively low value, standardized commodities which are highly sensitive to freight rates. In this respect, Canada is different from its major OECD trade partners which generally rely far more on industrial manufactured goods as the basis for their exports.

1.4 The Diversity of Shipping Markets

It is difficult to quantify Canada's future deep-sea transportation needs and the types of ships which would be required. In order to illustrate this, it is useful to contrast passenger with freight transportation. While it might be possible to calculate that a nation would need a given number of jumbo jets to serve its overseas travel market, similar calculations are not easily achieved for deep-sea freight transportation. One important reason for this is that cargoes are far more diverse than travellers. Consequently, freight transportation technology is much more differentiated than that for passenger travel.

The basic distinctions relating to cargoes are their physical characteristics and impact on cargo handling requirements. Many commodities like grain, coal and oil are handled by continuous loading and unloading devices such as conveyor belts or pumps. These products are usually carried in specialized bulk vessels designed to provide the most efficient form of transportation, given the product's characteristics and the nature of the trade. Such vessels fall into two basic categories, liquid and dry bulk. Within each category, there are large variations in design and size, limiting the substitutability of ships. As a general rule, it can be said that a ship specifically designed for a given trade will be more economical on that particular route than any other vessel.

Some vessels are designed for the carriage of a mixture of manufactured goods and limited quantities of basic commodities. Such general cargo vessels usually operate on scheduled or liner services. Over the past twenty years, general cargo liners have been increasingly replaced by containerized ships carrying twenty and forty foot containers like those observed on our highways. In recent years, general cargo markets have also seen the advent of RO/RO vessels (roll-on/roll-off), which are equipped to carry containers on wheels and various forms of odd-sized goods.

Commercial arrangements and contracts vary considerably in accordance with trade routes, cargoes, and general market conditions. Much of the liner traffic moves under so-called conference rates. These rates are established by associations (conferences) of liner operators and in a general sense, are of a structure similar to those used by domestic common carriers such as railroads and trucking lines.

Not all liner companies belong to conferences. The so-called independents usually establish their own rate tariffs with a view towards competing with the liner conferences.

Bulk transportation can be divided into two basic inter-linked market segments. The spot or tramp market is made up of short term contracts usually covering a single voyage, a specified number of voyages or a given quantity to be shipped between two points. The spot market can be highly volatile with rates sometimes doubling or more within a very short period of time.

The time charter market covers longer time periods and may in some cases permit the shipowner to amortize fully his vessel over the duration of the contract. Such arrangements have been common in markets where a long term stable flow is planned of a bulk commodity such as oil or coal.

In the bulk transportation market, a vessel may be chartered with or without a crew. Thus, in some cases a shipowner may limit his activities to the acquisition and disposal of vessels which he then leases or bareboat charters, to users who take charge of the vessel's operations. Yet other shipping firms may specialize in ship management and operating of vessels they do not own.

The various vessel types and forms of contractual arrangements between shipowners and shippers (or transportation users) have been designed in response to specific market needs. As trade patterns change, at times dramatically, transportation needs also evolve. In summary, no nation can hope to be in a position to provide adequately for all of its deep-sea transportation needs. In fact, even maritime nations rely to a varying extent upon a worldwide market for shipping services.

History shows that the diversity and complexity of international shipping markets render impossible any long term attempts to control such markets, whether the attempt is made by governments or private firms. There is no indication that a government sponsored fleet would be in a better position than the free market to provide for the diverse needs of Canadian shippers.

1.5 Flags of Deep-Sea Vessels Carrying Canada's Trade

Canada, although active in many aspects of international shipping, has basically abandoned policies which encourage deep-sea shipping under Canadian flag. At the present time, no more than one percent of Canada's deep-sea trade is carried in vessels registered in Canada.

Table 1.3 shows the participation of foreign flag carriers in our deep-sea trades. It can be observed that West European nations account for a major, although declining share of most of our trade with Western Europe and Oceania. Other major participants in our trades are the CMEA (or Comecon) countries, Japan and the various flags of convenience.

OECD countries carry a varying share of their foreign trade under their own flag. The following figures for national flag share have been reported to OECD for 1982:

SHARE OF TONNAGE CARRIED BY NATIONAL FLAG (PERCENT)

	Imports	Exports
Belgium/Luxemburg	9	7
France	26	21
West Germany	13	20
Italy	25	16
Netherlands	2	9
United Kingdom	29	27
Finland	51	48
Greece	46	47
Spain	48	15
Sweden	18	29
Japan	47	24
U.S.A.	6	4

Table 1.3

SHARE OF CANADIAN WATERBORNE TRADE BY FLAG

Trade	Flag Share %	Western Europe	Japan	CMEA ¹	FOC ²	Other	Total
Western Europe	1978	71.8	2.8	2.1	18.3	5.0	100
	1982	54.4	3.6	2.1	24.6	15.3	100
Eastern Europe	1978	29.3	-	55.8	11.2	3.7	100
	1982	24.6	1.1	44.3	25.5	4.5	100
Middle East/Africa Mediterranean	1978	28.3	0.7	1.4	57.4	12.2	100
	1982	34.2	1.9	0.8	45.3	17.8	100
Caribbean, Central & South America	1978	40.7	2.9	2.1	43.8	10.5	100
	1982	30.7	3.0	2.9	39.9	23.5	100
Asia	1978	20.4	35.0	1.3	29.3	14.0	100
	1982	14.0	31.6	0.5	36.4	17.5	100
Oceania	1978	60.5	1.7	0.3	24.5	13.0	100
	1982	58.6	0.8	0.3	28.9	11.4	100

Source: Unpublished data from Statistics Canada and Shipping Policy Branch, Transport Canada.

Notes: ¹ CMEA: Council for Mutual Economic Assistance (COMECON).

² FOC: Flag of Convenience.

Figures from other sources suggest that Australia, using the government owned ANL, carried only about two or three percent of its overseas trade under the Australian flag.

The following chapter shows that while in the past Canada has been a major seafaring nation, Canadian flag shipping has not enjoyed any prolonged prosperity in this century. Subsequent chapters bring out the major reasons why this is so.

1.6 Summary

This chapter has pointed out the significance of foreign trade to the Canadian economy. For exports which go to markets other than the United States, efficient deep-sea shipping is of vital importance.

Canadian deep-sea transportation needs are highly diverse and can only be satisfied by free access to a competitive shipping market. Therefore, over time, Canada has come to rely almost exclusively on foreign flag shipping to serve our trades. This is in sharp contrast to the practise of most industrialized nations, particularly in Western Europe, which traditionally have maintained strong national fleets.

It is interesting to note, however, that the American and Australian fleets only carry a modest part of their trade, around five percent or less. Both countries are faced with high subsidy payments in support of their national flag vessels.

The next chapters of this report raise the question of why Canada has found itself without any significant deep-sea fleet under Canadian flag and whether this state of affairs can or should continue.

CHAPTER 2

A CENTURY OF CANADIAN DEEP-SEA SHIPPING

2.0 Introduction

The history of Canadian shipping began with the use of wooden sailing ships trading between the various settlements. At first this trade was limited to coastal and inland regions because of the maritime policies imposed by Britain and France. As the country grew and trade expanded, the policy changed and trade with foreign countries was permitted. In these early years, Canada was able to take advantage of the demand for its resources such as timber and fish and became a major shipowning nation in the mid-19th century. This period was the zenith of the Canadian sailing ship era. Thereafter, the difficulty in making the transition from wood and sail to steam and steel shipping resulted in a major decline in Canadian deep-sea shipping. With the exception of the two World Wars and their aftermath, Canadian participation in deep-sea shipping never again achieved the prominence that it did in the age of sail.

The following review of Canadian shipping from the eighteenth century to present day suggests that Canada has generally not been inclined to consider maritime transport as a significant element in the overall commercial policy of the country. It appears that Canadian ventures in ocean transport have been due to specific circumstances or commercial opportunity rather than any global governmental strategy.

2.1 The Tall Ships

The early days of Canada's maritime history were characterized by a great need for vessels constructed for the British and French markets. The 18th century witnessed a rapid expansion of shipbuilding in Quebec, Nova Scotia and New Brunswick as each province had an abundance of timber suitable for shipbuilding and export.

Ships built on the East Coast and in the St. Lawrence basin were often loaded with lumber and both ship and cargo were sold on arrival in the United Kingdom. Canadian sailing ships, especially those built in the Maritimes, obtained a good reputation for speed and reliability and were consequently acquired by Canadian, British and American shipowners. While these Canadian built vessels traded worldwide, Canadian owners concentrated on the timber trade with the United Kingdom and trade in the West Indies, besides being active in coastwise commerce.

The Canadian shipbuilding industry peaked around 1875, largely as a result of the increased importance of iron and steel for the construction of vessels. In 1878, the Canadian merchant fleet ranked fourth in the world and comprised 7,196 vessels, totalling 1,333,015 net registered tons. Although it was not apparent at the time, Canada's fleet of sailing ships had started its decline. This was primarily due to the introduction of the steel steamship which superseded wooden sailing ships and iron-built steamers. There was also strong competition from the United States as it recovered from its Civil War.

The absence of a steel industry and the failure to acquire the necessary technical skills and expertise necessary in steel shipbuilding proved to be fatal to Canada's marine industry. The rapid transition from wood to steel can be demonstrated by the following example. While, in 1879, steel

steamers represented only 10 percent of the total tonnage launched on the river Clyde in Scotland, such ships constituted 97 percent of the launchings in 1889. Between 1878-1900, the tonnage registered in Canada declined by almost 50 percent and by 1900 all the large sailing vessels had been sold to foreign owners.

While considering the loss of sail supremacy to steam, it is somewhat ironic that the first steamship to cross the Atlantic Ocean was the Canadian owned and manned "Royal William" which accomplished this voyage in 1833, having been built in Quebec in 1831. She took 25 days and carried 253 chaldrons (324 tons) of Cape Breton coal along with seven passengers and a crew of 36.

Also in the forefront of shipping expertise at this time was a Canadian, Samuel Cunard of Halifax, who in 1840 established a transatlantic passenger service out of that port. His company subsequently became world renowned for its North Atlantic passenger service. It still operates passenger ships in the cruise industry today.

By 1914, there were basically only two Canadian flag shipping companies engaged in ocean shipping. They were William Thomson of Saint John, N.B. who operated fifteen ships of which nine operated in the Caribbean trade and the Canadian Northern Railway which, in 1910, had inaugurated a fortnightly service from the Canadian East Coast to Bristol Channel ports.

A third Canadian owned company, Canadian Pacific Steamships, also actively participated in transatlantic passenger and cargo services. However, these ships flew the red ensign and were registered in Britain. This service can be traced back to the Beaver Line which had been established in 1868 by the Canada Shipping Company and was sold to Elder Dempster in 1899. This company was in turn acquired by Canadian Pacific Steamships in 1903, which in 1909 further expanded its Atlantic service through the acquisition of the Allan Line.

Accompanying the decline in the number of Canadian ships and their involvement in the carriage of Canada's trade was the erosion of Canadian expertise in matters connected with ocean shipping.

2.2 World War I

By the beginning of World War I, Canada had a very limited shipping industry capable of aiding the war effort. However, the British Ministry of Shipping was confronted by heavy losses caused by German submarines and its own shipbuilding industry was fully occupied. Faced with this situation, it decided to place orders for new tonnage abroad. Despite the fact that its steel shipbuilding had been limited to repair work and constructing barges and small steamers, Canada, by means of new shipyards and energetic measures, produced forty-one steel ships. These ships ranged in size from 1,800 to 8,800 tons deadweight.

Early in 1918, the Canadian government embarked on a program to build its own steel oceangoing ships in order to provide tonnage to replace wartime losses. Although the war ended before the first ship was delivered, the Canadian government decided to continue the program, partly in an effort to provide employment, and partly to ensure a sufficient shipping capacity for Canada's overseas trade. In order to operate these government financed vessels, the Canadian Government Merchant Marine (CGMM) was formed. By 1921, a fleet of sixty-three ships totaling 380,000 deadweight tons had been launched for the CGMM.

During its first two years of operation, 1919 and 1920, the CGMM was profitable because of a continued strong demand for shipping services. However, the company's position was precarious

because of its unfavorable cost structure. The ships faced serious economic handicaps as a result of the high construction costs caused by postwar inflation. Despite these costs the government program went ahead. Regular sailings were established on most Canadian trade routes, specifically those to the United Kingdom, South America and the West Indies. Shipping services were also established to certain ports in the Newfoundland coastal trade.

Market conditions soon made it difficult for the CGMM to maintain profitability. In 1921, freight rates declined by as much as fifty percent for certain cargoes, so the company found itself facing losses in many trades. A major problem was cargo access, particularly with regard to homeward voyages.

For these reasons, the CGMM began to rationalize its services. However, in 1928, certain services were resumed at the request of the Department of Trade and Commerce and an annual subsidy was provided for guaranteed monthly sailings. Five years later, service was again abandoned for lack of return cargoes. Other services to various parts of the world including the United Kingdom, Australia and New Zealand were also eventually abandoned due to the lack of return cargoes.

In the light of ever increasing losses, it became clear to the management of CGMM that the company could not continue. Management therefore advised the gradual disposal of the company's fleet. This was started in 1923 and completed in 1936. Some of the vessels were transferred to another public agency, the Canadian National (West Indies) Steamship Ltd., a company established in 1929 to provide a shipping service to the West Indies.

When the divestment was completed, it was calculated that the cost to the Canadian government of establishing and operating the CGMM was in excess of \$82 million. The Royal Commission on Coasting Trade puts this figure into perspective stating that:

"Against the financial losses should be offset the service rendered to Canadian trade in the critical post-war period of shipping scarcity, and the fact that the objective was not to seek the most profitable employment but to develop new trade outlets." (**Report of the Royal Commission on Coasting Trade, 1957, p.54**)

This government venture into shipping turned out to be very expensive for a number of reasons. Most importantly the ships were ordered at very inflated wartime prices. The vessels having been built during the war were neither the most economical nor best suited for peacetime trade, and there is evidence that management at times was inefficient and incurred much needless expense. By the time the ships were launched, the war had ended. Some vessels had not yet been delivered when the international shipping markets had started to significantly deteriorate in 1921.

Despite its large financial losses, the CGMM did assist Canadian trade in the immediate postwar period when there was a shortage of shipping. The training and expertise gained by those involved served Canada well during peacetime and again during the Second World War.

2.3 World War II

In 1939, only thirty-eight oceangoing vessels of a 1,000 gross tons or more were registered in Canada, representing a total of 241,684 gross tons. Of these vessels, eleven belonged to Canadian National (West Indies) Steamships Limited. Also, Canadian Pacific had two of its transpacific liners on Canadian registry. Another ten vessels were oceangoing tankers, owned by the Imperial Oil Company, and were largely engaged in the transportation of crude oil from the Caribbean area to refineries in Eastern Canada.

In 1940, the United Kingdom placed its first order with Canadian shipyards for twenty-six 10,000 ton merchant ships. By the end of the Second World War, Canada had built 398 merchant vessels.

A crown corporation, the Park Steamship Company was set up in 1942 and at its peak operated 176 vessels comprising 156 dry cargo ships and 20 tankers. This company's task was to supervise the overall management of those warbuilt vessels owned by Canada. The actual operation and management of these ships was done by private companies. While these operating companies received management fees, the government retained the profits earned during the wartime period.

The Canadian government decided during the war to consider and formulate a policy for the future peacetime operation of the merchant marine. Consequently in 1943, the Merchant Shipping Policy Committee was created. This committee subsequently recommended the private sector should be given the task of owning and operating Canada's peacetime merchant marine.

2.4 Canadian Shipping 1946-1980

At the end of World War II the Canadian government had become a major shipowner for the second time in this century as a result of wartime needs. The decision to build a Canadian merchant marine had been based on strategic necessity as opposed to commercial opportunities. Consequently problems emerged when the warbuilt vessels were placed in commercial service.

These problems did not emerge immediately however. In the immediate postwar period, there was a tremendous demand for shipping services. Large volumes of general and aid cargoes were being shipped to Europe and other parts of the world. At this time, Canadian shipowners were able to operate with a fair degree of commercial success.

By 1948, the shipping market had become very competitive for a number of reasons. A requirement that 50 percent of U.S. aid cargoes had to be carried in U.S. flag ships substantially reduced the amount of cargoes available. Compounding this was the release of a large amount of U.S. warbuilt tonnage for commercial service by European shipowners. Additionally, some European owners were now operating with efficient modern tonnage. By using their own ships, the Europeans were able to conserve precious dollar currencies. While this adversely affected Canadian shipowners, Canadian exporters were not displeased with these arrangements as more dollars were then available in Europe for the purchase of Canadian commodities.

With the postwar decline in freight rates, Canadian shipowners operating warbuilt tonnage effectively could no longer compete in the international shipping market. The sale of the Park Steamship vessels started in 1948 and was virtually completed by 1949. It has been estimated that this disposition of Park vessels gave rise to a loss of approximately \$71 million.

In an effort to encourage the modernization of the largely privately owned warbuilt fleet, the Canadian government initiated in 1948 the Replacement Plan. Essentially, Canadian owners could sell their warbuilt tonnage to foreign buyers provided that the proceeds were used for the purchase of new Canadian flag ships built in Canada. This objective was never fully realized because of the high construction costs of Canadian shipyards. A few oceangoing ships were built under the scheme which was later modified to allow for the building of coastal vessels and Great Lakes ships.

The government took additional steps to help shipowners retain Park vessels in profitable employment. Two measures were introduced, the first of which was the Transfer Plan by which a negotiated number of ships would be transferred to United Kingdom registry; alternatively owners who kept their ships on the Canadian registry would receive a subsidy for one year.

The 1943 recommendation by the Merchant Shipping Policy Committee for private ownership and government initiatives in encouraging modernization of the Park fleet demonstrate that the intention was not to dismantle Canadian deep-sea capability, but rather to see it continue as a privately owned enterprise. The events which followed the war and resulted in the inability of Canadian flag shipping to operate competitively led the government to review its position.

In 1943, the Merchant Shipping Policy Committee recommended the creation of a permanent maritime commission. This gave rise to the establishment of the Canadian Maritime Commission (CMC) in 1947. In its second report published in 1949, the CMC presented the following finding: the creation and maintenance of a merchant fleet capable of accommodating a large proportion of Canada's export trade was not feasible. There was, however, a case to be made for the maintenance of a small efficient oceangoing fleet for reason of national security, the operation of which would not necessarily result in economic loss to Canada. In its report the Canadian Maritime Commission estimated that a fleet of 750,000 tons deadweight would be sufficient for national security purposes.

On December 9th, 1949, The Right Hon. Louis St. Laurent, announced in the House of Commons the following government policy on the Canadian merchant marine:

" . . . we have concluded that we are not justified from an economic viewpoint in maintaining a Canadian flag fleet by artificial means. It is not the intention of the government to maintain an industry at the expense of the taxpayer and, of other export industries, by the unhealthy method of subsidies, unless these countervailing considerations are very strong indeed."(Official Report of Debates, **House of Commons**, First Session Twenty-First Parliament, 13 George VI, 1949. Volume III, 1949, p. 2978).

The policy announced in 1949 has remained basically unchanged as regards deep-sea shipping. There have been changes, however, with respect to domestic shipping activities. Following the 1957 report of the Royal Commission on the Coasting Trade, the government amended the Canada Shipping Act in 1965. This amendment restricts the coasting trade within the St. Lawrence River and the Seaway to Canadian flag vessels.

The opening in 1959 of the St. Lawrence Seaway subsequently established a new era for Canadian Lakes shipping. The Lakes companies introduced new large ships, 730 feet in length, capable of carrying 800,000 bushels of wheat. The Lakes fleet also benefitted from government support because of its importance in Canada's grain export trade. Just before the Seaway opened, the Canadian government announced a shipbuilding subsidy to encourage the modernization of the Great Lakes fleet.

Given the situation facing Canadian shipping companies in deep-sea trades, they chose to direct their activities to the Great Lakes shipping market. In international shipping, flag of convenience vessels offering low cost shipping backed by lower taxes and wages, and in many cases, lower capital costs, soon became the choice of shippers. Canadian shipowners conceded the unequal struggle and either withdrew from deep-sea trades, concentrated on domestic shipping or sought a flag of convenience.

In the 1970's, there was a trend away from total concentration on specialized dedicated Seaway vessels which could only operate in the Seaway system to dual purpose ships. These vessels operate on the Lakes when the Seaway is open and deep-sea for the remainder of the year. The deep-sea activity is seen as a method of maximizing the use of essentially Lakes vessels rather than as means to strengthen the Canadian deep-sea presence.

While ocean ships have an expected lifespan of maybe 20 years, lakers operating in fresh water may last for 50 to 60 years. As a result, the economics of operating dual purpose ships are different from those of conventional lakers. Therefore the full long term implications of dual purpose ships on the ability of Canadian shipowners to compete internationally remains to be seen.

2.5 Current Status

At present, the Canadian registered fleet consists of 200 vessels with a total deadweight tonnage of approximately 3.5 million tons. These vessels are primarily involved in coastal, Great Lakes and inland waters shipping. The great majority are owned by Dominion Marine Association members and operate exclusively on the Great Lakes/St. Lawrence Seaway. Of these 200 vessels, 90 have the capability for deep-sea activity but only 10-12 of these dual purpose vessels are engaged in any regular deep-sea service, trading to Central and South America and Europe.

Also to be taken into consideration is the existence of a substantial deep-sea merchant fleet which is controlled by Canadians but not registered in Canada. This offshore fleet totalled 96 vessels in 1984 with a combined tonnage of 4.8 million tons deadweight. It includes modern tankers, bulk carriers and RO/ROs, registered in Britain, Hong Kong, Liberia and other countries. It is interesting to note that one such vessel, Canadian Pacific's "Fort Toronto", was one of the ships taken up from trade and served with distinction in the Falklands crisis as a fresh water tanker.

In recent years, a major initiative involving Canadian flag shipping was the result of the potential commercial opportunities linked to Arctic development.

The Canadian Arctic is a resource rich and strategic land mass with access to three oceans. Although there has been Arctic shipping for sometime, primarily to resupply northern communities, it was the voyage of the American icebreaking tanker "Manhattan" through the North-West passage in 1969 which raised key issues concerning sovereignty and the commercial aspects of shipping in Arctic waters.

Stemming from this event was the 1970 enactment of the Arctic Waters Pollution Prevention Act. This ensured Canada's ability to protect the Arctic environment by setting standards for design, construction, manning, cargo, equipment, and navigational aids. Vessels not meeting these standards will not be allowed to operate in the designated shipping safety zones.

Parallel to this, mining in the High Arctic resulted in a joint industry government initiative to build a large icebreaking, oceangoing bulk carrier. The "M.V. Arctic", a 28,000 ton bulk carrier, was built in 1978 at Port Weller Drydock and is operated by Canarctic Shipping Company. Canarctic is owned by the federal government and a private sector consortium consisting of ULS International Inc., CSL Group Inc., and Fednav Ltd.

The "M.V. Arctic" was designed to meet Arctic ice class II specifications in accordance with the Arctic Shipping Pollution Prevention Regulations. The ship, along with providing services for the export of ore concentrates from the High Arctic to foreign markets, has been involved in an ongoing data collection and evaluation of environmental forces experienced during commercial operations in the Arctic.

The most recent development concerning this ship is the plan to convert it into an OBO ship capable of carrying 20,000 tons of crude oil. Initially it would carry oil cargoes from the Bent Horn field on Cameron Island. Once again, the "M.V. Arctic" will be used to demonstrate the feasibility of Arctic transportation but with oil instead of dry bulk cargoes.

2.6 Summary

Shipping has always played an important role in Canada's history and it is closely woven with our past and present. During the 19th century, Canadian built and manned wooden sailing ships played a major role in world trade. Such ships achieved a good reputation for speed and reliability and there was a large body of experienced manpower both to build and sail them. The mainstay of this commercial success was the forest industry of Eastern Canada which provided the raw materials for the construction of the ships and the principal cargoes to fill them. Canadian timber, then as now, found a good market in the United Kingdom and Continental Europe.

When steam and steel replaced sail and wood, Canadian ocean supremacy began its decline. The country lacked a local iron and steel industry and the technical expertise to build the new steel steamships. Along with the loss of this competitive position, Canada's business community was looking westward for expansion and trade and was not concerned about reviving the declining fortunes of the deep-sea fleet.

Canada's next involvement with a deep-sea fleet came about as a direct result of measures during World War I to build merchant ships to aid the war effort. In the aftermath came a national shipping company (the CGMM) designed to expand the export trade and develop new routes. This company with its high costs and poor management could not operate competitively during the worldwide recession. After lingering for a couple of decades, it passed into history.

During the Second World War Canada proceeded to build another deep-sea fleet. Drawing on its earlier experience in such matters, the government in 1943 stated that shipping should be a commercial enterprise to be operated by the private sector in peacetime. For a short period after 1945, the deep-sea fleet was profitable but weakened by high operating costs and labour problems. By 1950, despite government efforts to make it more competitive, Canada was virtually relying on foreign flag operators for its ocean transportation needs.

Unable to operate competitively under their own flag, Canadian shipowners turned to the business of operating or chartering deep-sea ships under other flags. The conditions that allowed Canadian entrepreneurs in the days of sail to reach a privileged position in world shipping without government support have never been repeated.

CHAPTER 3

THE INTERNATIONAL SHIPPING ENVIRONMENT

3.0 Introduction

Deep-sea shipping is an international industry, even more so than most other industries known as international or which claim to be “internationalizing”. It seeks out customers from around the world and goes wherever there is cargo. Physical assets other than vessels are minimal except for liner services where shorebased assets are important. Even so, most shipping companies remain highly mobile and have often moved across borders at short notice when market conditions made it necessary. Shipping companies far more than banks, airlines or manufacturing firms, are “footloose”. This is not a question of national loyalty or lack thereof. It is the direct result of being committed to serving customers in a highly competitive, dynamic world market.

No firm, or even a single country, can expect to be able to impose its own rules on the world shipping market in the long run. It is therefore essential to study and analyze this market and its environment on a continuous basis in order to be able to adjust and respond to the trends which shape ocean shipping.

This chapter gives an overview of the key elements of this environment, such as trade, technology, and government intervention.

3.1 Changes in Demand for Shipping Services

For Canada and most other industrialized countries, the postwar years saw tremendous growth in economic output and world trade. The great increase in world trade was a determining factor in the expansion of shipping. The portion of goods and services traded internationally doubled from 11 percent of world output in 1950 to 21 percent in 1980.

The period from the early 1960's to early 1970's which experienced the greatest expansion of international trade coincided with the entry into the shipping market of national fleets from previously non-maritime nations. This was the result of the available commercial opportunities and the rise of nationalism in many developing countries. It was during this time that the Soviet Union began its large scale ship acquisition program, motivated by both the commercial and strategic advantages of a merchant fleet.

The major centers or “hubs” of this surge in economic output were the United States, Britain, West Germany and Japan. Canada with its abundance of basic commodities became a supplier to these centers and a buyer of the final finished products. This trade was greatly stimulated by ready access to efficient low cost shipping.

Trade patterns and relationships were formed which remained relatively unchanged until the events of 1973-74 caused a major restructuring. The result has been a reduction in overall world trade with some sectors faring worse than others. New economic centers have emerged, such as Taiwan, South Korea and to some extent, Latin America. Countries which previously only produced raw materials are moving into the manufacturing industrial sector where, with access to abundant cheap labour, they are able to operate at a competitive advantage.

Many of these newly industrialized countries have become major shipbuilding nations, again as a result of low cost manpower. The resultant large scale construction of new shipping tonnage has greatly exacerbated the already weakened demand for shipping services caused by the reduction in economic activity.

Table 3.1 demonstrates the tremendous increase in the physical volume of Canada's oceanborne trade since 1949. It also confirms figures on trade value presented in Chapter 1 to the effect that Europe's importance as a trade partner is declining while Asia is becoming increasingly valuable as a trade region for Canada.

Table 3.1
CANADIAN OCEANBORNE TRADE 1949 AND 1982¹
Thousand Tonnes

	1949 Total Trade		1982 Total Trade	
	Cargo Tonnes	Percent	Cargo Tonnes	Percent
Europe	9,314	61.5	55,485	46.3
Asia	1,299	8.6	44,216	36.9
Africa	594	3.9	2,741	2.3
South America	372	2.4	4,533	3.8
Caribbean & West Indies	3,019	19.9	10,611	8.8
Australia & New Zealand	555	3.7	2,311	1.9
Total	15,153	100.0	119,897	100.0

Source: Figures derived from Table V of **Canadian Maritime Commission Report 1949**, and unpublished data from Statistics Canada.

Note: ¹Excluding petroleum and its products.

With competition from new exporting countries and increased domestic output by traditional buyers of Canadian products, Canadian exporters are operating in markets where any differences in landed price of goods, however small, can mean loss of sales. At the same time, the oversupply in the shipping market has kept the transportation costs competitive, a critical factor for Canadian exporters serving overseas markets.

3.2 Ship Types And Features

Three major changes have and will continue to influence shipping in the 1980's. These are the specialization of ship types, the automation of on board systems and developments in ship design and propulsion to increase fuel efficiency.

One source of increased productivity in shipping has been increased vessel specialization. In the postwar period cargo ships were often grouped into three main classes, cargo liners, tramps and tankers. Although there were increases in size, speed, cargo equipment and machinery, this basic classification remained valid until the advent of the container revolution in the 1960's. The last decade

has seen vast changes and a proliferation of specialized ships such as barge carriers, chemical and gas carriers, RO/ROs, as well as numerous bulk carriers modified for the carriage of forest products, cars and unit loads.

Increased productivity in ocean transportation has also resulted from more efficient cargo handling systems involving greater mechanization of ports and modified vessel design. Onboard cargo handling gear has been dispensed with in many cases and replaced by shore cranes. In the case of RO/ROs, ramps are used to drive the cargo on and off. Consequently, port turnaround time is measured in hours rather than days. The flexibility of containers linking rail, road and waterborne movements has made possible new intermodal transportation services and led to widespread use of single through rates and bills of lading.

Concurrently with specialization, ships have become larger to permit economies of scale in fuel consumption, crew costs and capital costs. Increased size, however, does carry a penalty since there is less flexibility with larger than with smaller ships and such vessels cannot be readily transferred to other services.

Because crew costs can represent a quarter of the total costs in running a modern ship much has been done to reduce manning levels, particularly by means of automation. Microprocessor technology can be used in the operation of engine rooms, cargo management, navigation, weather routing, bridge controls and administrative tasks.

To date, the application of such systems has been limited. It is technically possible to put in place vessels with fully automated propulsion and navigation systems. Theoretically such vessels could cross the oceans with crews of 6 to 10 men.

At present the medium and slow speed diesel engine is the choice of most shipowners due to its low fuel consumption and reliability. Given the importance of fuel economy, steam and gas turbines with their high consumption have been out of favor and some owners have replaced these types of machinery with diesel engines. Nuclear propulsion may be a commercially viable option within the next two decades. If the price of oil should again rise, coal slurry fired boilers for steam machinery could be an alternative but its use could be limited by the availability of coal.

Fuel efficiency may also continue to be improved by the design of more efficient hull forms, the use of longer lasting, self-polishing, anti-fouling coatings on the underwater hull and the fitting of devices to improve the efficiency of the propeller flow.

Changes in technology, while increasing productivity have had several effects. First, shipping is now more capital intensive, thus making entry into certain trades more difficult than before. Secondly, shipping is less flexible because of the increased specialization of ships. Thirdly, changes in vessel technology have had repercussions on shore based facilities which are designed specifically for specialized service.

The full impact of changes in technology have yet to be felt. Market structures may well undergo future modifications with the adoption of new technology. Competitive pressures arise from the fact that in many instances, fewer ships are needed to carry any given amount of cargo. Additionally, the ratio of fixed to variable costs may have increased, stimulating increased price competition in the short to medium term. Adjustments are most visible in container trades. Round-the-world service by large container vessels will substantially increase available container capacity and could lead to new pressures on rates. Multimodal transport may encourage further integration of companies operating different transport modes.

3.3 Flags of Convenience

A flag of convenience, or open registry, is the flag of certain countries that permit the registration of foreign owned and controlled vessels under conditions which may be particularly convenient and cost effective. Among the best known such flags are Panama, Liberia and Honduras.

In 1970, the British Committee of Inquiry into Shipping (the Rochdale Committee), defined flags of convenience as follows:

- 1) The country of registry allows ownership and/or control of its merchant vessels by non-citizens.
- 2) Access to the registry is easy and a ship may usually be registered at a consulate abroad.
- 3) Taxes on the income from the ships are not levied locally or are very low. A registry fee and an annual fee based on tonnage are normally the only charges made. A guarantee or acceptable understanding of future freedom from taxation may also be given.
- 4) The country of registry is a small power with no natural requirements for all the shipping registered, but receipts from very small charges on a large tonnage may produce a substantial effect on its national income and balance of payments.
- 5) Manning of ships by non-nationals is freely permitted.
- 6) The country of registry has neither the power nor the administrative machinery to effectively impose any government or international regulations; nor has the country the wish to control the companies themselves.

Essentially, the inducements to place a ship under a flag of convenience are benefits to the owner from attractive fiscal policies which include low or no taxation on earnings and the availability of low paid, non-union crews with few restrictions on manning. There is also freedom from government regulations and political control over trading, chartering and selling practises.

Open registries appear destined to attract new tonnage despite attempts by UNCTAD to close out or modify these registers by such means as the proposed International Convention on Conditions for the Registration of Ships. Some developing countries decry FOC fleets on the grounds that they deprive their countries of employment for trained seafarers. Other developing countries support the principle of FOC fleets because their nationals earn large amounts of foreign exchange while serving aboard them. Resistance to FOC ships comes also from the International Labour Organization (ILO) and the International Transport Workers Federation (ITWF) who claim that crews are often underpaid and that many of the FOC ships are substandard.

A review prepared by the Bremen Institute of Shipping Economics shows that as of October 1st, 1984, Liberia was the leader both in world tonnage and open registry tonnage with a fleet comprising 1,772 ships with a gross tonnage of 58.72 million tons. Panama was second in world tonnage and third in open registry with a fleet of 3,845 ships with a gross tonnage of 34.34 million tons.

Table 3.2 shows that the United States, Hong Kong, Greece, and Japan together account for 75 percent of the beneficial ownership of flag of convenience ships. Such vessels are used mainly in the bulk trades. The Liberian tanker fleet for instance is owned or chartered by major international oil companies. Flags of convenience are particularly prominent in OECD trades where FOC vessels carry one third of imports and one fifth of exports.

Table 3.2

BENEFICIAL OWNERS OF OPEN REGISTRY FLEETS 1983
(Number of Vessels And Thousands Of DWT)

Home Country of Beneficial Owners	Number of Vessels	DWT (000)	Percent DWT
United States	748	52,138	25.8
Hong Kong	916	39,595	19.6
Greece	978	30,835	15.2
Japan	997	21,556	10.7
Norway	183	7,152	3.5
Federal Republic of Germany	366	6,237	3.1
Switzerland	157	5,483	2.7
United Kingdom	192	3,998	2.0
People's Republic of China	138	3,365	1.7
Republic of Korea	85	2,456	1.2
Canada	39	1,593	0.8
Sub-Total	4,799	174,408	86.3
Others	1,604	27,639	13.7
Total Open Registry Fleets	6,403	202,047	100.0

Source: UNCTAD Committee on Shipping, Doc. TD/B/C.4/261.

In 1982, flag of convenience ships carried 35 percent of Canada's deep-sea trade and are actively participating in many of our most important export trades such as iron ore, grains, forest products, and potash. A high percentage of crude oil imports into this country is carried from the Persian Gulf and the Caribbean under such flags.

3.4 Soviet and Other CMEA Fleets

One of the most notable developments in the maritime world since the early sixties has been the rapid expansion of the Soviet Bloc merchant fleets. Western shipping interests and defense experts have repeatedly voiced their concerns about the political, commercial and military aspects of this development.

As of April 1983, the Soviet merchant fleet was comprised of 1,727 ships totalling 19 million tons deadweight. Of recent years this fleet has had a slower rate of growth as smaller, obsolete ships are being replaced by larger and more efficient container ships, deep-sea RO/ROs, barge carriers and specialized multi-purpose icebreaking cargo ships.

This Soviet fleet by undercutting prevailing conference rates have been drawing cargo away from established shipping lines and cross traders. The Soviet merchant fleet does not operate on a commercial basis. It exists to earn foreign currency, strengthen ties with developing countries, supply the tonnage for Russia's own trade requirements and establish a worldwide marine presence which in turn has important political and military considerations.

Member countries of the Council for Mutual Economic Assistance (CMEA), greatly expanded their fleets in the early sixties. In addition to the USSR, Poland and the German Democratic Republic have large merchant fleets. The People's Republic of China, although not a member of CMEA, has adopted a similar policy of expanding its merchant fleet and has been very active of late in buying second hand tonnage. The Chinese fleet, totalling 12 million dwt, is expected to double by 1990.

In 1982, CMEA ships carried 6.7 million tons of cargo to and from Canada. This represented five percent of Canada's total waterborne trade that year. Inbound cargo consisted of high value goods from the CMEA and OECD countries. Outbound cargo included grain to the USSR, Cuba and other CMEA countries.

3.5 Fleets of Developing Nations

Developing nations perceive a need to expand or establish their own national flag fleets. It is seen as a means of stimulating industrial activity, creating employment and conserving foreign exchange. Beyond the obvious advantages of promoting their overall economic development and participating more fully in international trade, they see prestige in owning a deep-sea fleet.

Although such fleets are active in all sectors of the shipping market, they tend to be attracted to the general cargo trades. There has been a good supply of second hand, relatively modern cargo liners for sale which are very suitable for their ports and trades, and secondly, general cargo trades lend themselves more easily to government intervention and participation than the bulk cargo and tanker interests.

To illustrate measures taken by some developing countries towards the creation of national fleets, one such nation's efforts are examined more closely.

In 1959, the Nigerian National Shipping Line (NNSL) was set up as a result of a government committee's recommendation that it would be in the nation's interest to have a deep-sea fleet. It was incorporated with a share capital of £2 million held jointly by the government and two British shipping companies, Elder Dempster Lines Ltd. and Palm Line. In 1961, the two latter groups were bought out by the Nigerian Government. The company had commenced operation with three second hand ships and in 1977 the NNSL embarked on an ambitious expansion plan. This included the purchase of new ships from yards in Yugoslavia and South Korea of nine 12,000 ton cargo ships and ten 13,000 ton cargo combo ships.

The NNSL has cadets being trained in the U.K. and, in 1980-82, 24 university graduates had been trained for shore positions. It is claimed that the company has made important contributions to the economy by saving on foreign exchange and stabilizing local freight rates within the conference system.

Developing nations have called for national and international action to increase their share of the world's merchant tonnage to 20 percent by 1990. The International Development Strategy (IDS) adopted by the United Nations in 1980 states that:

"The international community will continue to take the necessary steps to enable developing countries to compete more effectively and to expand their national and multinational merchant fleets so as to increase their share substantially with a view to reaching as close as possible to 20 percent of the world's deadweight tonnage by 1990."

Developing countries in 1982 carried 14 percent of the tonnage moving in Canada's deep-sea trades. This is substantially less than the 33 percent share these countries represent as trade partners.

3.6 Government Intervention in Shipping

The rapid growth of the merchant fleets of the developing countries has been accompanied by various forms of government intervention in the international shipping market. The main thrust for such intervention policies has come from certain developing countries. Also some OECD countries, faced with slow economic growth, high unemployment and dependency on exports, have at times sought refuge in protectionist policies.

Government initiatives which have been designed to protect and promote national flag shipping have taken three forms: multilateral, bilateral and unilateral.

(a) Multilateralism

In October 1983, the UNCTAD Code of Conduct for Liner Conferences came into force. An important article of this Code provides for the principle of cargo allocation. It is suggested that cargo could be shared on a 40-40-20 basis, giving each of two trade partners the right to carry 40 percent of the liner cargo generated between them, leaving only 20 percent for cross traders, i.e., third country carriers.

At the UNCTAD V Conference held in Manila in 1979, the developing nations proposed a resolution which would recognize the rights of national carriers to an equitable share of the bulk cargo generated by their countries. It is known that the intent of many developing nations was to claim half of their trade for carriers flying their national flag. The resolution was passed by a majority vote against the united opposition of all OECD countries.

Subsequently, an investigation was undertaken at UNCTAD's request to determine whether there were artificial barriers to entry for developing countries wishing to participate more extensively in bulk trades. In 1981 the experts who conducted the survey, which involved the major importers and exporters of iron ore, phosphate, bauxite and alumina, reported they could not find any obviously unfair or discriminatory practises which would prevent developing countries from expanding into such bulk trades.

(b) Bilateralism

Many governments have entered into bilateral trade agreements where all or most of the trade between the two countries is reserved for their national flag carriers. The leading proponents of bilateral shipping agreements are developing countries seeking greater participation in their own trade. This strategy has also been adopted by certain OECD countries. This has been done to ensure access to certain trades where it is not possible for private shipowners to maintain commercial operations in competition with state backed fleets.

Another aspect of bilateralism which gives cause for concern is the threat to traditional maritime countries such as Greece, Britain and Norway which, with little bulk cargoes of their own to carry, are very active in the cross trades. Countries such as Canada which rely heavily on cross traders to meet their transport needs, may be faced with less competitive shipping markets in the future.

An essential problem with bilateral trade agreements is that the trade between the two countries is often not sufficient to generate the necessary "back-haul" cargo and therefore transport costs will increase.

(c) Unilateralism

Unilateralism refers to a variety of policies, regulations and trading practises which governments pursue in an attempt to favor their own national flag ships rather than relying on the free play of the world's shipping.

Unilateralism has never been entirely absent from the international shipping environment. One country or another has always had in place legislation designed to favor its own national flag ships at the expense of competitors. Since 1945, however, the emergence of developing countries and the subsequent growth of national shipping lines coupled with major overtonnaging has resulted in a proliferation of unilateral practises.

These practises fall into roughly four groups: port discrimination, discrimination in cargoes, trade agreements, and financial measures. More specifically these practises include:

- 1) Higher port dues and charges for foreign ships, limited access or denial of access to foreign ships and special procedures for pilotage requirements and medical clearances.
- 2) Discrimination in cargoes ranging from specific cargo reservation for national flag carriers, to import and export controls requiring use of national flag ships. There are also agreements which require the use of certain steamship lines as chosen agencies.
- 3) Trade agreements regulating the carriage of military or aid cargoes sponsored by government agencies.
- 4) Financial measures including currency control and taxation.

3.7 Effects of Government Intervention

Government intervention in shipping invariably gives rise to disruptions in the marketplace. To operate efficiently, shipping must have flexibility in order to meet the needs of importers and exporters. Government intervention means less cargo available for commercially motivated shipowners as cross traders lose out to national flag carriers. Government supported carriers do not generally have commercial excellence as their prime objective, and may need government intervention to secure cargo for their services. The net effect is to harm foreign commerce on routes governed by flag discrimination and commercially competitive carriers are often denied free access to the market. In such circumstances, there may be no effective resolution of shipper complaints and no countermeasures available to shippers short of government involvement.

The kinds of difficulties outlined here do not appear to represent a major problem in Canadian trades today. In its submission to the Task Force, the Exporters' Coalition on Canadian Maritime Policy, in July 1984, stated that Coalition members polled indicated some problems with nationalistic shipping policies in Argentina, Brazil, Chile, China, Colombia, Cuba, Ecuador, Indonesia, Peru, USSR and

Venezuela. The Coalition further reported that the problems identified are in most instances minor and not the same for all shippers. Concern has been expressed, however, that nationalistic shipping policies could adversely affect Canadian trade at some future point.

Table 3.3

SHARES OF MAJOR GROUPS IN THE WORLD FLEET

	Mid-1970		Mid-1983	
	Million GRT	Percent	Million GRT	Percent
OECD	147.1	64.7	198.7	47.0
Open Registries	41.1	18.0	107.0	25.3
USSR/Eastern Europe	18.6	8.2	33.7	8.0
Developing Countries	17.5	7.7	70.2	16.6
Rest of World	3.3	1.4	13.0	3.1
Total	227.6	100.0	422.6	100.0

Source: *Maritime Transport 1983*, OECD Paris 1984, p. 56.

3.8 Changing Role of OECD Shipping

The objectives of the Organization for Economic Co-operation and Development are to promote social and economic welfare for its member countries. One of the chief methods of achieving this is to develop common policies on matters of mutual interest.

Problems connected with international shipping are the concern of the OECD's Maritime Transport Committee whose predecessor dates back to 1947. It has consistently upheld the OECD's belief that the free circulation of shipping, based on free and fair competition, is the best way to achieve efficient shipping services. Any interference with the principle of free access to all shipping markets reduces efficiency and consequently increases the cost of shipping services worldwide.

The current and future status of the OECD merchant fleets is of particular interest to Canada which relies heavily on deep-sea shipping services provided by OECD members.

In the last few decades, this OECD policy has been challenged by the national fleets of developing nations and state fleets such as those of the Soviet Union. The reduction of OECD fleets is illustrated in Table 3.3. From mid-1970 to mid-1983, the percentage of the world fleet registered in these countries declined by 18 percent although total tonnage increased. There has been a substantial increase in the fleets of developing countries as, over the same period, they increased their share of the world's fleet by nine percent. The share of world tonnage held by the USSR and Eastern Europe has been stable at approximately eight percent. This group has held its share of an increasing world tonnage whereas OECD countries have lost considerable ground.

With the growth of fleets registered outside the OECD countries has come government intervention in the form of multilateral, bilateral and unilateral initiatives which curtail or exclude OECD owners from competing for trade in certain areas.

In recent years rising manning costs, high capital costs and fuel prices as well as an oversupply of shipping has made profitable operation difficult. High cost operators in OECD countries have been particularly hard pressed.

From 1982 to 1983, the OECD fleet declined by more than twelve million gross registered tons. In an attempt to reduce operating costs which are the main cause of their fleets' decline, OECD shipowners are reducing crew manning levels by means of automation and multi-purpose crews. Fuel costs have been reduced by way of more efficient propulsion systems and the disposing of obsolete tonnage. It has been suggested that OECD fleets can only succeed if they operate high technology, labour-saving vessels.

Some OECD shipowners have developed specialized markets where their unique expertise coupled with modern technology can offset cost disadvantages. Others have established joint ventures with companies in developing countries. Such undertakings take a variety of forms, but generally allow the OECD shipowners to work cooperatively with the foreign partners under the laws and policies in the developing country which are designed to protect and promote its national flag fleet. In addition to continued efforts to reduce costs, OECD countries are also transferring vessels to open registry countries.

3.9 OECD Response to a Changing Environment

OECD countries who own merchant fleets offer various forms of financial assistance to their fleets. Denmark, Belgium and Spain appear to offer greater support in this direction than do France, Italy and Greece.

Tax policies in most OECD countries are favorable to shipping, but the level of advantages and the nature of the policies vary from country to country. For instance, the United Kingdom provides for accelerated depreciation, while others such as Spain allow for tax credits. Yet others, like the Federal Republic of Germany, make provisions for an accumulation of tax free reserves. Such measures are necessary to balance disadvantages pertaining to operating costs.

Until recently the United States government provided an operating differential subsidy to U.S. flag operators to help offset the high operating costs of American flag ships. The operating differential has been criticized for restricting operating flexibility, dulling competition and allowing excessive costs to be incurred.

Several OECD countries such as the United Kingdom and the Netherlands have legislation in force which provides for retaliatory action against countries interfering with their shipping. This approach has gained some acceptance within the OECD community.

Some OECD countries have become contracting parties to the UNCTAD Code of Conduct for Liner Conferences. This was done in order to protect their shipowners participation in trades with developing countries. For similar reasons certain OECD countries have also entered into bilateral shipping agreements. One such example is the 1980 agreement between the United States and the People's Republic of China which allocates one third of their bilateral trade to each respective partner.

Overall, however, the OECD advocates the principle of free and unimpeded competition in all shipping markets in accordance with the OECD Code of Liberalization.

3.10 Conclusions

Despite numerous and frequent instances of intervention in shipping markets by some foreign governments, no clear trend towards significantly greater levels of protectionism can be discovered on a worldwide scale. Much of the intervention is in the form of subsidies and has increased the supply of shipping services. It has been suggested that certain forms of government intervention, including the establishment of state fleets may even have given rise to increased competition in international shipping. Thus, these developments may actually have benefitted shippers.

Technological developments over the past few decades have given rise to greatly improved productivity for most kinds of ocean shipping and have contributed to keeping down or even lowering the real cost of ocean transportation. In some cases, the effects of technological improvements have been diverging and may give rise to contradicting interpretations. For instance, the construction of highly specialized vessels dedicated to specific trade routes can be seen as creating barriers to entry for other vessels, thereby lowering the potential for competition. Yet, these same vessels generally give rise to lower operating costs, thereby benefitting shippers.

Specialized vessels can enjoy less flexibility than conventional ships and may not be suitable for trades other than those for which they were designed. Consequently, excess supply has often occurred in specific market segments, such as the North Atlantic container trades or some of the crude oil transportation markets. This tendency to oversupply, resulting from the introduction of larger, highly productive ships, seems to be considerably stronger than the often predicted concentration of tonnage in the hands of a few giant shipping companies.

It is clear that the continued improvement of vessel technology on the whole has benefitted shippers while also rewarding a few commercially motivated shipping entrepreneurs. Those who have paid a price for the often disruptive onslaught of innovation are shipping firms who were unable to respond quickly to changing market circumstances.

International shipping is undergoing a continuous evolution. Failures of established, well known shipping corporations occur regularly. Newcomers, at times backed by not much more than unlimited energy and innovative concepts, have in some instances managed to establish highly successful companies; mergers, joint ventures and leasing agreements of various kinds abound. In fact, one would be hard pressed to point to any other equally important and established international industry undergoing comparable changes.

The overall trend in ocean shipping has decidedly been towards more, not less, competition. While this competition could be described as disruptive and destructive from the point of view of established maritime nations, it has certainly not hurt exporters of goods and commodities. Canada as a major exporting country has benefitted from the trends outlined above.

It is against this background that Canada must review its policy options regarding the future of deep-sea shipping.

CHAPTER 4

POLICY OPTIONS FACING CANADA

4.0 Introduction

The purpose of this chapter is to review options facing Canada in the area of deep-sea shipping and to present conclusions on the major issues.

At the early stages of its work, the Task Force developed a range of issues deemed relevant under the terms of reference. As the work advanced, however, it became evident that there are two basic questions which must be addressed before recommendations can be formulated. These questions are:

1. What are Canada's deep-sea transportation needs?
2. To what extent could these needs be satisfied by the use of Canadian flag vessels manned by Canadian crews?

The following sections provide answers to these questions and discuss some specific options available to Canada and which the government may wish to consider as a basis for future deep-sea transportation policies.

4.1 Canada's Deep-Sea Transportation Needs

There is general agreement that Canada needs free access to competitive, commercial deep-sea shipping in order that the country's foreign trade may continue to play its role as a major agent of economic growth. It is essential, therefore, that our deep-sea transportation policy recognizes and explicitly considers the needs of Canadian shippers.

Some have argued that strategic needs must also play an important role in the formulation of shipping policy in that a merchant marine can be a valuable adjunct to a country's military defense system. From a practical viewpoint this is not likely to be the case for Canada as, to a large extent, the vessels needed to serve the commercial trade are not suitable for military requirements. It would be unrealistic to justify the creation of a merchant marine solely for defense purposes. In the highly competitive international shipping market, shipowners must concentrate on satisfying specific shipper needs if they are to survive.

In order to support the Canadian economy effectively it is essential that our deep-sea shipping policy be based unequivocally on commercial principles as opposed to some broader, undefined national interest. The task of deep-sea shipping is to serve foreign trade efficiently and competitively. Canada's deep-sea transportation needs must, therefore, be defined in terms of the needs of shippers.

4.1.1 Freedom of Choice and Access to Shipping Markets

The Canadian Export Association has stated that, "Exporters' first priority is ready access to ocean transportation at internationally competitive rates." Foreign trade in most goods and services operates in a highly competitive environment. This is particularly true of Canada's traditional export products, such as pulp and paper, grains, oil seeds, coal, and minerals.

For basic commodities market conditions can change very rapidly. Geographic distance, established business relationships and long term contracts, as well as various government measures including subsidies, duty on competing foreign goods and import quotas, provide considerable protection from the vagaries of the marketplace for most products sold on the domestic market. In contrast, the ability to provide similar protection for our exports is severely limited by free market forces.

Canadian exporters have to overcome the effects of great distances to their markets abroad. This is particularly critical for those exports that go to markets other than the United States. While exporters to the United States benefit from extensive intermodal competition involving all freight modes, this is not the case for overseas markets. Customers overseas are served almost exclusively by ocean transportation, air freight constituting a realistic alternative for only one or two percent of the export volume.

Freedom to choose deep-sea carriers is seen by shippers as the key to safeguarding free entry and competition in overseas transportation. This means the right to choose the best alternative available for any given shipment, irrespective of the flag of the vessel or its ownership.

Canadian shipowners should also be free to pursue their business activities in all international shipping markets, the only requirement being their ability to compete on commercial terms. The ability of Canadian shipowners to compete internationally has been hampered by a lack of recognition by government of the special needs of service industries which have to compete worldwide in an international environment. Freedom of choice for shippers must be accompanied by freedom for Canadian shipowners from the imposition of unduly restrictive fiscal, economic and technical restraints.

4.1.2 Competitive Transportation Costs

Most of Canada's exports have relatively low value per ton, and freight charges may constitute thirty or even forty percent of delivered price in foreign ports. Clearly, under such circumstances, the level of freight rates becomes critical to the competitiveness of our exporters, their profitability, or even survival.

While the absolute level of freight charges plays a major role in an exporter's decision to attempt to enter a given foreign market, the relative level of freight may be equally or more important. Most Canadian exporters are competing with sellers shipping from the United States, South America, Europe and the Pacific Rim. This form of worldwide competition means that buyers can and frequently do shift their purchases from one source to another.

Canada does not have the option of pursuing an independent shipping policy without regard for the realities facing our exporters. Any policy resulting in an increase in freight costs relative to freights paid by our competitors would exclude many Canadian exports from overseas markets.

4.1.3 Quality of Service

While cost of service is the critical factor in transportation of bulk commodities and low value cargoes, quality of service remains important. Its relative importance, however, depends on the nature and characteristics of goods carried.

For the shipper of bulk commodities, quality means reliability, i.e., the ship is available when promised. In bulk markets, a shipper's needs are usually expressed in terms of specific requirements,

such as a given quantity of cargoes to be carried between known points over a given period of time. Additionally, there may be specific demands concerning vessel size, and equipment. Usually, at any given time there may be any number of vessels capable of meeting the shipper's requirements. The free flow of information and unimpeded movement of vessels allow the shipper to identify quickly and charter a vessel or vessels which meet his requirements and which are available at the lowest price.

In markets for manufactured goods where value per ton is considerably higher than for standard commodities, the shipper may consider factors other than price when choosing a carrier. In many cases, his shipments are too small to fill a vessel and he may find it preferable to use liner service.

The number of carriers available to a user of liner services is typically much lower than is the case in bulk shipping. There may be a choice of only a few lines or even no choice at all. In such cases it becomes doubly important that the principle of the shipper's freedom to choose a carrier be maintained. It is this principle which signals to other shipowners that a given trade will be open to them should market conditions warrant it. Thus, the freedom of choice principle serves to lower barriers of entry to any given shipping market, thereby constraining the market power of liner operators and conferences already established in a trade.

4.1.4 Integrated Transportation and Terms of Shipment

Shippers today enjoy a wide range of shipping services to and from Canada. Rate wars in liner shipping have greatly benefitted exporters and importers alike. In both liner and bulk markets considerable overcapacity presently exists, and there is no lack of service at rates which frequently are below long run costs.

It should not be assumed that nothing can be done to improve further the efficiency of our existing ways and methods of reaching foreign markets. In particular, it has been suggested that small and medium sized firms would stand to gain from further rationalizing the movements of their exports, through greater consolidation of shipments.

Exporters face a basic choice with respect to terms of shipment. Sales can be made CIF (cost-insurance-freight) in which case the exporter is responsible for providing transportation to the foreign market. Alternatively, the exporter may delegate the responsibility for transportation to his customer who assumes responsibility for the shipment when it is delivered onboard the vessel (FOB or free-on-board).

It has been suggested that benefits may be possible also in bulk export trades by a more extensive use of CIF as opposed to FOB contracts. Benefits from the use of CIF contracts arise from the potential for cost savings through careful selection of the most efficient methods of transportation. New marketing opportunities may also be found when the exporter quotes delivered prices to foreign customers.

Large exporters may be able to achieve considerable rationalization of their transportation purchases and may actually obtain higher profits on their overall sales. Experience from export marketing shows that it is often beneficial for the exporter to maintain control of his marketing down to the ultimate overseas customer.

4.1.5 Shippers' Views

In general, shippers emphasize that Canada is well served by the free and highly competitive shipping market conditions which prevail in our major trade areas. While most submissions suggest that there is no systematic trend towards increased protectionism on a worldwide basis, some shippers indicate that they occasionally experience problems as a result of other nations requiring the use of their national flag.

It is the view of many shippers that the government, rather than promoting or financing a national flag fleet, should pursue policies that would create a higher profile both nationally and internationally on shipping matters. On the national level, the government may find it useful to develop a monitoring system in close cooperation with industry in order to anticipate and respond to developments deemed detrimental to Canada. In conjunction with this, Canada should actively advocate the principle of free competition at international shipping forums.

Several shippers recommend that Canada consider trade legislation which would strengthen the government's hand in international regulation and would make it possible for Canada to retaliate in situations where trading partners dictate adverse or discriminatory terms of shipping arrangements or related services.

Some shippers also call attention to the existence of strong Canadian expertise within many areas of ocean shipping, such as chartering, brokerage, freight bookings and ship management. By making greater use of CIF terms, transportation users can effectively strengthen shipping expertise in Canada without any intervention by government. Some shippers believe that Canada already has a highly developed international maritime transportation system and infrastructure whether in the form of capital, expertise, personnel or management. It would not be advantageous for government to focus on one single element of this vast transportation system, namely the registration of the vessel. The main concern must remain the financial health and economic effectiveness of the overall system.

4.2 Canadian Shipping and Its Cost Environment

This section reviews the state of Canada's international shipping activities before looking more closely at the cost and regulatory environment faced by today's shipowners. The implications for the maintenance of shipping know-how and expertise in Canada is also reviewed.

4.2.1 The Dispersion of Canada's International Shipping Activities

Canada maintains a vigorous and highly professional presence in shipping, both domestically and internationally. However, government policies, both at home and abroad, coupled with Canadian cost levels, have led to a near total disappearance of Canadian flag vessels in our foreign trade.

Canadian participation in shipping takes on various forms. In the case of Canadian owned vessels, two basic situations can be identified:

(a) Canadian flag, crew and management base

A total of more than 200 vessels exceeding 3.5 million tons deadweight fall into this category. Most of these vessels operate exclusively on the Great Lakes. Others serve in Canada's coastal trades. A small number (10-12) operate occasionally or intermittently in foreign trade. Some of these are so-

called oceangoing lakers. Such vessels are relatively more expensive to build than conventional vessels designed for service exclusively on the Great Lakes, but their deep-sea capability allows greater flexibility in the owner's asset management.

The employment of oceangoing lakers is currently in an early stage of commercial development and supported by their service on the Great Lakes. Where oceangoing lakers are employed primarily outside Canada for any length of time, indications are that they may be transferred to foreign flag to remain competitive.

Under the present Canadian fiscal and regulatory regime, Canadian flag vessels operated with Canadian crews would generally be unable to compete in international trades because of substantially higher costs compared to those of foreign flag fleets. Canadian owners operating from a Canadian base may face cost disadvantages even when operating under foreign flag. This is largely because of Canadian taxation rules for international shipping activities.

(b) Canadian owned vessels, foreign flag, foreign based crew, management and chartering

Canadian shipowners, in order to participate on equal terms with foreign entrepreneurs in competitive international shipping markets, will find that resorting to foreign flag and foreign crews may not be sufficient. Additionally, the decision makers of shipping companies have to take up residence abroad in order to avoid Canadian taxation of international shipping activities. Thus, Canadian shipowners committed to international shipping generally have found it necessary to move not only ship registration but the shipowning company itself overseas. As a result, the size of the Canadian owned fleet operating offshore is greater than that of the domestic fleet under Canadian flag. The largest owners of the foreign flag fleet are Canadian Pacific Ltd., Cast, Papachristidis, and Fednav. In 1984, these companies accounted for close to 80 percent of the Canadian offshore fleet.

Participation in international shipping does not require ownership of vessels. Some Canadian exporters use their considerable expertise in ocean shipping to charter vessels from foreign owners in order to secure shipping tonnage for at least a portion of their transportation requirements. Examples of such shipper involvement in deep-sea shipping are Seaboard Shipping and Canadian Transport.

Seaboard Shipping is controlled by Seaboard Forest Products, a cooperative marketing and sales organization for some West Coast lumber and plywood exporters. Seaboard Shipping operates 20 to 30 voyage charters per year and has nine foreign flag vessels on time charter.

Canadian Transport is fully owned by MacMillan Bloedel. It operates a charter program providing transportation for the parent company. Excess transportation capacity is marketed to other shippers.

Yet another example would be Montship Inc. (Montreal Shipping) which operates a fleet of vessels under contract from Abitibi Price.

The above examples illustrate that Canada indeed has an active shipping industry, operating worldwide. The basis for these international activities is Canadian entrepreneurship supported by experienced and skilled management. What this country does not have is a significant contingent of Canadian flag vessels engaged in foreign trade. The following review of the economic and regulatory environment faced by Canadian shipping explains why this is so.

4.2.2 Cost Structure of Ocean Shipping

Because of competitive pressures, international freight rates tend to approximate long run costs. While many stories exist about fabulous riches accumulated by shipping magnates of the past, bankruptcies and low yields on capital invested are more common. In such highly competitive markets, it is essential that all costs are minimized. There is no room for “absorbing” higher than predominant international wages, construction cost and taxes, or any other costs incurred in the operation of a deep-sea service.

The shipowner faces three broad categories of costs. These can be summarized as follows:

(a) **Capital costs** typically represent between 30 and 50 percent of total costs and are determined by vessel price (whether acquired new or second hand), and interest paid on the ship’s mortgage;

(b) **Voyage costs**, usually 20 to 40 percent of total, refer to fuels, harbour and canal dues, and certain port and cargo loading and unloading charges;

(c) **Operating costs**, representing 25 to 40 percent of total, comprise insurance, repairs, vessel maintenance, stores, administration and crew wages with fringe benefits.

Capital costs can be subject to considerable variability from one firm to another as they depend on the initial cost of the ship, interest and exchange rates applicable to the financing of the vessel.

Government policies have a major impact on capital costs in shipping, depending on the flag used. Most countries actively participating in deep-sea shipping have established programs which reduce the capital costs of their shipowners. Such programs include direct construction subsidies, interest subsidies and loan guarantees. The profitability of investment is further affected by a variety of arrangements influencing the timing of tax payments such as accelerated depreciation rates and investment tax credits.

Canada does not offer such benefits to its deep-sea shipowners, and Canadian flag deep-sea operators can at best hope to achieve capital costs comparable to many foreign owners provided vessels are acquired abroad.

Voyage costs should generally be the same for all shipowners on a given trade route, although some countries may favor their national flag lines with cheaper fuel and preferential treatment in port. Canadian flag shipping could possibly suffer some minor disadvantage for this cost category.

Operating costs vary substantially with the flag of the vessel and the nationality of the crew. This is due to the dominant role of manning scales and crew wages as determinants of daily operating costs. It is the discrepancy in wages between the traditional maritime nations and the developing countries that lies behind the decline of OECD fleets and the corresponding expansion of vessels registered under flags of convenience. Domestic wage levels have a direct bearing upon wages demanded and obtained by seamen. It is to be expected, therefore, that crew costs are directly related to the standard of living in various countries and the employment opportunities at home.

The rapid growth of the North American economy after World War II contributed to make vessels under American and Canadian flags uncompetitive in deep-sea shipping. In response, the Americans have been paying heavy subsidies in order to maintain a presence on the oceans. Canada preferred the solution of relying upon foreign flag vessels.

Crew costs in such OECD countries as Japan and Norway have increased substantially in recent years. While this trend has reduced Canada's competitive handicap vis-a-vis other OECD nations, it must be noted that maritime OECD countries have increased support to their fleets through a variety of aid programs and subsidies. Despite this, their fleets are declining, in some cases dramatically, notably in Norway and the United Kingdom. From mid-1982 to mid-1983 the Norwegian and British merchant marines declined by 12 and 15 percent respectively, and in 1984 the British fleet was only three fifths of its level eight years earlier. As a result, high cost OECD countries including Japan, Norway and the United Kingdom have been forced to accept that their owners transfer vessels to foreign flag or in some cases allow an increasing use of foreign crews on national flag vessels. This appears not to be a short term phenomenon, but rather a long term, irreversible trend. Even low cost Greece makes extensive use of seamen from developing countries such as Egypt and the Philippines. By 1980, one third of the seamen onboard Greek flag vessels were foreign nationals from developing countries.

4.2.3 Comparative Crew Costs

Canada's most critical deep-sea transportation needs are in bulk markets where flag of convenience vessels participate in large numbers. As a result, Canadian wage levels need to be compared not only with those prevailing in OECD countries but even more with those of developing countries. In general, Canadian wages are among the highest in the world, although below American levels. It should be pointed out, however, that Canadian unions have confirmed a willingness to be flexible with respect to crew size, subject only to safety considerations. This combined with new vessel technology could possibly in the future reduce the operating cost disadvantage which face Canadian flag vessels. Other countries, however, have already embarked upon such projects and there is presently no reason to believe that Canada could achieve a competitive edge based on high technology and labour-saving devices.

As limited information exists on actual cost of Canadian crews in deep-sea trades, American and North European costs can be used as an indicator of Canadian potential costs relative to those of developing countries. International cost comparisons will always be incomplete and must be interpreted with prudence. Some firms may be reluctant to divulge exact up-to-date information which could be used by competitors. Even where data can be obtained, direct comparisons are difficult because fluctuating exchange rates give rise to distortions. Other problems stem from different accounting systems. Also, there rarely are two or more identical and truly comparable situations to be found.

Despite the uncertainty surrounding cost comparisons, we believe the following tables clearly demonstrate that cost differentials between high and low cost crews are of such a magnitude that there can be no reasonable doubt about the conclusions.

To put the importance of crewing costs in perspective, it is of interest to note that in 1981, such costs represented from 7 to 28 percent of total costs for newly built vessels under Norwegian flag. Generally, crew costs tend to be relatively more important for smaller ships and bulk vessels (ranging from 10 to 28 percent) than for large tankers, containerships and RO/ROs. For older tonnage the share of crew costs would be higher than those percentages just mentioned. For example, while 15 percent of total costs may not appear major to those unfamiliar with the competitive nature of international shipping, there can be no doubt that crew costs play a determining role in the ability of a vessel to compete in deep-sea trades where profit margins tend to be very low or even negative.

Table 4.1 provides a comparison of monthly base wages for crew. Although variable exchange rates give rise to fluctuations in dollar wages, this does not eliminate the wage gap that generally exists between developed and developing nations. It must further be noted that the figures in Table 4.1 are

considerably below wages actually paid as allowances, overtime, and other extras are not included. Such additional payments are of greater importance in OECD countries than in developing nations, thus making the absolute wage gap greater than that suggested by Table 4.1. In 1981, the United States, the highest cost country, had a basic wage rate that was more than twice as high as that of the lowest cost competitor, Greece. In mid-September 1984, the basic wage at the prevailing exchange rate in the United States was four times higher than in Greece. The wage rates in the United Kingdom, Japan and Norway also declined relative to the United States. Despite this, all these countries have increasing difficulties in remaining competitive in international shipping markets.

Table 4.1
BASIC MONTHLY WAGE RATES 1981-1984¹

(Able-bodied Seamen - U.S. \$ per month)

	Greece	Japan	Liberia ² (a)	Liberia ³ (b)	Norway	U.K.	U.S.
1981	428	758	684	499	889	545	1,081
1982	476	756	769	546	889	565	1,255
1983	445	784	821	698	888	516	1,323
1984 Sept.	363	767	821	739	770	456	1,448

Source: Lloyd's Shipping Economist, October 1984

Notes: ¹ Excluded are all fringe benefits, special allowances, overtime and other extras. Rates are calculated at mid-month exchange rates.

² Liberia (a) is International Transport Federation World Wide rate.

³ Liberia (b) is International Transport Federation Far East rate.

The only wage rates apart from those of the United States to increase in U.S. dollar amounts, were those paid to crews of Liberian flag vessels. This fact weakens the common assumption that such crews are grossly underpaid by international standards. When such vessels are highly competitive in world markets it may be less a question of basic wage rates than of extras paid under other flags. Such extras include overtime, vacation time and medical benefits. In many OECD countries, actual crew costs may be two to three times higher than the basic wage.

Table 4.2 shows the combined effect of varying crew size and different wage scales on annual manning costs. It is obvious that the enormous discrepancies between wage levels in developed versus developing countries can never be fully compensated for by lower manning requirements based on more extensive automation of vessels. It is observed that total U.S. manning costs for a 25,000 dwt bulker in 1982 could be almost ten times higher than in the Philippines. It has been suggested in some cases that the salary of a U.S. deep-sea captain could be sufficient to pay for an entire crew from certain developing countries. In this context it must be mentioned that on the average it takes two men per billet, or position, to man a U.S. vessel on an annual basis. Table 4.2 further illustrates that Canadian wages, although substantially below American levels, are among the highest in the world.

Table 4.2

ANNUAL MANNING COSTS FOR A 25,000 DWT BULK VESSEL 1982

(U.S. \$'000)

Flag	Crew Size	Costs Per Man			Annual Manning Costs Per Vessel
		Wages	Other ¹	Total	
U.S.A.	31	\$ 70	\$ 13	\$ 83	\$ 2,573
Canada	33	36	6	42	1,386
Norway	23	36	12	48	1,104
Belgium	22	27	9	36	792
South Korea	28	9	5	14	392
Philippines	33	7	2	9	297

Source: CSR Consultants Ltd.

Note: ¹ Includes Social Insurance/Pension, Victualling, Travelling.

Table 4.3 presents figures for a vessel of roughly the same size as the one used for Table 4.2. The data, however, are from different sources and refer to somewhat different manning levels. The table confirms the previous statement to the effect that Canadian wages are at the top end of the scale internationally. Although the discrepancy between Canadian and the lowest reported cost is lower in Table 4.3 than in Table 4.2, Canadian crew costs are more than twice as high as those of the flag of convenience vessel.

Table 4.3

ANNUAL CREW WAGE AND VICTUALLING COSTS FOR A 28,000 TON GEARED BULK CARRIER 1984

Flag	Crew		Annual Cost ¹	
Liberian	Korean	27 men	\$ U.S.	595,937
U.K.	U.K.	25 men		701,000
Belgian	Belgian	23 men		917,219
Canadian ²	Canadian	23 men		1,317,782
Canadian ³	Canadian	26 men		1,334,931

Source: Private Industry.

Notes: ¹ Exchange rates used:
 1.0 £ = U.S. \$1.40
 B. fr .56 = U.S. \$1.00
 C\$ 1.00 = U.S. \$.75

² & ³ Difference between the two Canadian figures is due entirely to different manning scales.

Table 4.4

ANNUAL CREWING COSTS FOR A 29,000 TON VESSEL 1982¹

(Pounds Sterling)

	British Officers with a Chinese Crew	British Officers and Crew
Wages and paid leave	217,500	362,376
Overtime	29,000	57,849
Crew travel	13,000	52,908
Manning expenses	4,400	42,118
Crew support costs	9,000	33,923
Total Crew Costs	272,900	549,174

Source: Centre for Policy Studies, **British Shipping: The Right Course**, Policy Study No. 67, Michael Colvin MP & Jonathan Marks, AICS, London 1984, p. 30.

Note: ¹ Comparison of running costs of two identical 29,000 ton vessels built in 1977 and operating in 1982.

The three tables, 4.1 through 4.3, all demonstrate the difficulty or even inability of OECD flag vessels to compete, particularly in the highly competitive bulk trades which are of crucial importance to Canadian exporters. While the absolute figures presented vary from one table to the next, they can be shown to be internally consistent. By way of example, Table 4.1 gives U.S. \$456 as being the base wage rate for a U.K. able-bodied seaman in 1984. When overtime, time off and other fringe benefits are added, this figure may double to \$912 or \$10,944 on an annual basis for a seaman at the bottom of the wage scale. The average pay for crew and officers on the ship will be substantially higher, again maybe double the amount or \$21,888 per year. Adding victualling (food, etc.) to this could bring the cost per man up to about \$25,000 per year. This figure is comparable with the U.K. annual crew cost figure of \$701,000 in Table 4.3 which equals \$28,040 per man.

Table 4.4 provides an insight into why traditional maritime nations may be forced to accept more and more foreign seamen onboard their vessels or to "flag out". The table compares the cost of running a U.K. 29,000 ton vessel with an all British crew versus operating with British officers and a Chinese crew. It is overwhelmingly clear that highly paid crews from high income OECD countries cannot hope to continue to compete with crews from low income nations. In the example shown, the all British crew is twice as expensive as a mixed crew.

No attempt has been made to estimate the theoretical costs of operating a Canadian flag core fleet. Many knowledgeable people consulted on this question agree that such an exercise would be futile and misleading. A reason for this is that there is no agreement as to what would constitute a Canadian flag core fleet, nor is there any clear indication as to what kinds of vessels would be required or what trades could be served. Although some have mentioned that a fleet of forty or fifty vessels could be considered, no data are available documenting the need for or feasibility of such a fleet.

4.2.4 Concluding Remarks

The cost figures presented clearly demonstrate the great difficulty or inability of the high income nations to compete without subsidy in the highly competitive deep-sea shipping environment. The changing composition of the world's merchant fleet in favour of crews from developing nations cannot

be expected to be reversed in this century. For Canada to consider measures to enter national flag deep-sea shipping at a time when maritime OECD countries are having great difficulty keeping their fleets from disappearing, does not make economic sense.

We believe that investment decisions in deep-sea shipping must remain the prerogative and sole responsibility of the individual shipowner, and that only the private entrepreneur can decide upon what types of vessels to operate and at what cost. In the present Canadian economic and regulatory environment, there is little room for a Canadian flag fleet in deep-sea trades, except under unique market conditions.

In specialized market niches, Canadian shipowners have demonstrated an ability to be innovative. During the last decade Canadians have developed specialized tug-barge systems which could have deep-sea application. More recently Canadian shipowners have been actively marketing overseas their self-unloading bulk carrier technology. There is seen to be tremendous potential for such vessels in the developing world where it provides a viable alternative to expensive shore based handling facilities. In a venture to lessen dependence on the nine month Lake season, two Canadian flag bulk carriers with specialized ice strengthening and shallow draft features have been carrying grain from Rotterdam and Hamburg to Leningrad.

4.3 The Regulatory and Fiscal Environment of Canadian Shipping

Despite Canada's dependence on international trade and deep-sea shipping to maintain a healthy and strong economy, successive Canadian governments over the last few decades have attached only a low priority to maritime transportation. This attitude has resulted in inadequate mechanisms to deal with many of the problems emerging on the international shipping scene.

Matters have been further complicated by the fragmentation and overlap of responsibility for maritime affairs within the federal government. The late Howard Darling observed in his 1974 report on shipping policy issues, "there is lacking [in Canada] the cohesiveness and unity of purpose that characterizes the shipping policy of most other nations, quite apart from any questions of the actual merits of such policies."

This state of affairs has led to an environment which can at best be seen as indifferent to the needs of the Canadian shipping industry. Some would even argue that Canada presents an adverse climate for Canadian based shipping companies committed to deep-sea transportation. The observed dispersion and fragmentation of Canada's international shipping expertise confirms that conditions for international shipping companies based in Canada discourage the continued development and growth of shipping expertise and management from taking place within our borders.

4.3.1 Maritime Tax Policies

Virtually all maritime nations engaged in international ocean transportation provide significant aid to their shipping industries. Canada stands alone among the OECD nations in that it offers no aid, subsidy or tax relief in support of its international shipping services.

There can be no doubt that Canadian taxation of international shipping has directly and significantly contributed to the move of Canadian based shipping activities to offshore locations. Canadian tax policies with respect to international shipping have become increasingly restrictive over

time and reflect a failure to understand the nature of this industry. As a result Canada has lost valuable shipping resources and may even have lost tax revenue because shipping activities moved out of Canada in order to stay competitive.

While many shipping nations in theory do not provide relief or exemption from income tax, other forms of aid may have the effect of eliminating tax on profits by the use of generous depreciation rules or tax free reserve funds. In yet other instances, any income taxes paid may be partially or totally offset through direct subsidies, official low interest loans and other means.

In evaluating the tax situation of shipping in a given country, it is not sufficient to study national tax laws. Detailed knowledge of rules and regulations as applied by tax authorities play a significant role in the determination of taxes. The same is true of accounting practises and the legal status of various corporate entities such as limited partnerships, joint ventures, holding companies, etc.

It is believed that as a general rule, international shipping services are not effectively subject to income taxes, except when profits are distributed as dividends to shareholders. In fact, one report prepared for the U.S. Committee on Ways and Means flatly states that most countries impose "little if any tax on international shipping."

4.3.2 The Case of the United States

It is useful to consider more specifically the American situation which reflects the co-existence of different and at times contradictory approaches to maritime policy. First, there is the U.S. flag fleet which for the most part is heavily subsidized, although there are a few notable exceptions where carriers have been quite successful without receiving direct subsidies. However, all U.S. flag vessels qualify for substantial indirect subsidization in the form of high paying government cargo for U.S. flag operators.

The U.S. flag fleet consists primarily of liner vessels, of which most are container vessels. In 1983, the oceangoing segment of the U.S. flag fleet amounted to 553 vessels for a total of close to 22 million dwt. Of these, 448 vessels were part of the active fleet.

The subsidized part of the U.S. flag fleet in 1982 received \$340 million in operating differential subsidy. The subsidized companies for the same year reported \$177 million in "shipping operations gross profit" **after** subsidies. Provisions for income taxes were \$23 million. During the period 1961-1982 American flag shipping received a total of close to nine billion dollars in subsidies of which two thirds were subsidies to compensate for the high operating costs of U.S. flag vessels.

Theoretically U.S. flag shipping for tax purposes is treated similarly to other industries. In practise, it benefits from certain important benefits unique to the industry. These benefits, the Capital Construction Fund (CCF) and the Construction Reserve Funds (CRF), allow U.S. citizens to defer taxes on earnings from international shipping, provided such profits are reinvested in U.S. built vessels.

A second approach to deep-sea shipping is to be found in American policy with respect to bulk. The United States has allowed, even encouraged, the development of a significant bulk fleet under various foreign flags. A large share of this U.S. effective control (EUSC) fleet belongs to members of FACS, the Federation of American Controlled Shipping. In 1984, the FACS fleet amounted to 28 million deadweight tons of Liberian, Panamanian and Bahamian tankers, bulk carriers and specialized vessels. The total EUSC fleet in mid-1984 amounted to 43 million dwt carrying the flags of Bahamas, Honduras, Liberia and Panama.

The EUSC fleet is available to the United States government in the event of war or national emergency through written commitments of the owners and the countries of registry. It is eligible for U.S. war risk insurance, a major benefit for vessels operating in war zones.

Owners of EUSC benefit from tax deferral if their profits are reinvested in shipping or may enjoy outright tax exemption if the country of registry does not tax international shipping. While these vessels are registered "abroad" and owned by "foreign" corporations, registration and incorporation in the case of Liberia, may actually be done in New York City at appropriate Liberian agencies. In fact, the EUSC vessels may be effectively managed and controlled from the United States without jeopardizing their tax deferral or exemption privileges.

In order to qualify for EUSC status, vessels must be registered in Bahamas, Honduras, Liberia, or Panama. Additionally, each vessel must meet one of the following conditions:

- (a) the ship has over 50 percent ownership by U.S. citizens, including corporations;
- (b) the ship is covered by War Risk Insurance Binders issued by the U.S. Maritime Administration (MarAd);
- (c) the ship is subject to MarAd contractual control as a condition of transfer of a U.S. flag ship to foreign registry.

Both the OECD and the United States Maritime Administration have recently published comprehensive reports on maritime aid and taxation policies in a large number of nations having an active involvement in ocean shipping. It is evident from an examination of these documents that the fiscal environment for shipping in Canada, when compared to that of other countries can only be described as hostile. As long as this situation remains unchanged, one cannot hope for any expansion of Canadian based international shipping.

4.3.3 Regulations, Ship Inspection and Surveys

Shipping is subject to extensive technical regulations and control necessary to guarantee the safety of crew and vessel. Such regulations can in some circumstances inadvertently affect the ability of shipowners to compete. The purpose of this section is not to imply that Canadian safety standards should be lowered. It is to enquire whether such regulation could be achieved without placing an excessive burden on the shipping community.

The Ship Safety Branch of the Canadian Coast Guard is the government department which has specific regulatory responsibilities towards safety of life at sea. The current role of the Branch has been expressed as follows:

"To develop and apply safety standards for the design, construction, operation and maintenance of ships, their machinery and equipment, navigation, handling and storage of cargo, qualification and certification of ship personnel, and for the prevention of pollution by ships in order to ensure the safe operation and navigation of all ships and marine vehicles in Canadian waters."

To a large degree the regulations, codes and standards which are developed by the Ship Safety Branch are based on International Maritime Conventions and Codes promulgated by the International Maritime Organization (IMO) which was established under the aegis of the United Nations to promote

common international maritime safety requirements. Regulations and standards are also developed from recommendations resulting from formal investigations into marine casualties or can emanate from public pressures.

When implementing international maritime conventions, each country acceding to them drafts its own legislation. Although theoretically there should be uniform and common standards, in practise, differences do emerge. Beyond this there are concerns as to how some countries apply and interpret their regulations. Despite the best efforts of the Canadian Coast Guard in this regard, there is evidence that when transferring a foreign vessel to Canadian registry, additional expenses on safety measures are sometimes incurred. All foreign flag ships, irrespective of year built, are regarded as new vessels when transferred to Canadian registry and have to undergo extensive alterations.

In Canada, ship inspections and surveys are carried out by competent personnel guided by a regulatory process which mandates safety standards considerably beyond those imposed by other countries. Canadian shipowners contend that excessive modification costs are incurred in the name of safety. These costs may make difficult or uneconomical the transfer to Canadian registry of second hand vessels presently operating under foreign flag.

4.3.4 The Environment for Canadian International Shipping – Some Concluding Remarks

The cost environment for international shipping is such that Canadian flag ships with Canadian crews cannot at present compete successfully with fleets of established maritime nations. This situation is exacerbated by the fiscal and regulatory regime applied to Canadian based international shipping.

In the absence of a Canadian flag fleet it is important to maintain as much shipping expertise in Canada as possible.

Such expertise can take many forms. In the past it has included significant Canadian owned shipping operations controlled and managed from Canada. Unfortunately, the fiscal environment in Canada has encouraged the expatriation of Canadian owners and managers.

Additionally, various regulations make it difficult for Canadian owners to repatriate vessels presently registered abroad, should they wish to do so.

The government cannot affect a change in Canadian wage levels which would make it possible for Canadian owners to operate profitably with Canadian crews in international trade. The government can, however, significantly change the tax and regulatory environment facing Canadian shipowners.

Such modifications cannot be expected to lead to major changes overnight and may at first benefit only a small group of Canadians. In the short to medium term, it may be that some operating expertise of deep-sea vessels would return to Canada. The long term effect would be to lay the foundations for a strengthened maritime milieu in Canada on which future shipping activities can build, should circumstances warrant such a development.

4.4 Options for Canada

The choices which need to be made by Canada cover a wide range of options. It is not a simple question of whether we should have a fleet or not. In fact, we have a substantial fleet, both domestically and internationally, although the latter is under foreign flag.

It is important to recognize that we already possess a highly developed **deep-sea transportation system**, which includes ship operations, chartering, brokerage, ports and all other elements necessary to provide complete international deep-sea transportation services. The one missing element is Canadian flag vessels in our deep-sea trades. It has been shown that this is largely due to an economic environment which favors the transfer of shipping to low cost nations. This is true not only for Canada but applies worldwide. Even traditionally strong maritime nations are increasingly unable to maintain their national flag fleets in the face of economic realities.

The main options considered by the Task Force are the following:

- 1) the establishment of a core deep-sea fleet under Canadian flag;
- 2) the maintenance and strengthening of Canadian based shipping expertise;
- 3) an improved economic and regulatory environment for Canadian based shipping;
- 4) monitoring the international shipping environment;
- 5) mechanisms for protecting Canadian interests against foreign intervention in shipping.

In the following, we shall review our conclusions on these five questions.

4.4.1 The Canadian Flag Core Fleet Option

This question has been given considerable attention by various groups over the past decades, and many of the submissions received by the Task Force address this question specifically.

(a) Arguments Favoring the Development of a Canadian Flag Core Fleet

Some groups within the shipping industry have stated a clear and strong support for a Canadian flag core fleet. The Canadian Shipowners Association (CSA) and the Dominion Marine Association (DMA) maintain that there should be a gradual development of Canadian flag deep-sea capability. It is claimed this would result in long term economic benefits as well as being a prudent move on Canada's part in view of changes taking place in the international shipping market.

The CSA/DMA maintain that a Canadian fleet could become competitive in certain segments of the international shipping market through amendments to the Canadian corporate tax regime and the development of a favorable fiscal climate that would permit realistic labour contracts and training programs for seamen. Canadian shipowners do not favor subsidization programs and further state that cargo reservation is not desirable.

The Canadian Labour Congress (CLC) in its submission strongly supports the development of a Canadian flag deep-sea fleet. Its members recommend a fleet composed of repatriated Canadian ships as well as new ships built in Canadian shipyards.

Benefits identified as flowing from such a development would include improved employment, long term stability and growth in the shipping industry, increased Canadian control of working conditions and operation of ships trading from Canadian ports and an improved balance of payments for Canada.

The point is also made that reliance on foreign flag shipping may leave Canada at the mercy of fleets serving as instruments of national policies of their own countries. Furthermore in cases of national emergency, such as armed conflicts or embargoes on key commodities, a fleet capable of responding to Canadian interests would be invaluable. The CLC also see a Canadian flag deep-sea fleet as helping to consolidate our sovereignty over the offshore and the Arctic.

Several submissions received deal with the issue of national security and defense as a compelling argument for a revitalized Canadian deep-sea fleet. While recognizing that the economics of the shipping industry is the most important factor to be considered, the Navy League, the Naval Officers Associations of Canada, and Emergency Planning Canada put forward the proposal that non-commercial factors should also receive consideration by the Task Force. Proposals refer to the control in an emergency of Canadian owned ships which are registered under foreign flags, the resupply of Canadian forces overseas in maritime scenarios and the possibility of government incentives for shipowners who provide installations for modular weapons systems for merchant ships.

(b) Reasons Why the Establishment of a Canadian Flag Core Fleet Is Unrealistic

The creation of a Canadian flag core fleet to serve in deep-sea trades would presently require strong government intervention, either through direct subsidies or the reservation of cargoes for Canadian flag vessels or both. Such extreme measures have previously been taken by Canada only in wartime or in attempts to employ war-built fleets after hostilities were over.

While it is true that many OECD countries which Canada might use as a basis for comparison provide subsidies or practise cargo reservation, these countries no longer do so in order to promote and expand their national flag fleets. Rather, their efforts are aimed at slowing the decline of existing fleets and facilitating the retraining and relocation of jobless seamen. Some countries also consider strategic concerns sufficiently important to warrant the use of public funds to maintain a certain level of deep-sea transportation capacity.

Such maritime nations as Greece, Norway and the United Kingdom have been forced to accept as an inevitable fact the rapid decline of their national flag fleets. These countries also rely to a varying extent on foreign nationals to man their vessels.

Under present circumstances it would be impossible to envisage a Canadian flag fleet paying Canadian wages in competition with foreign shipowners operating under a different fiscal and regulatory regime. Furthermore, it cannot be demonstrated that at the present time there is any need for such a fleet to serve Canadian trade interests. This is not to deny that special market niches exist where Canadian owners in fact have been successful.

The question of a possible strategic need for a Canadian flag fleet has been raised. Canada's commercial deep-sea transportation needs lie primarily in the area of bulk shipping. Such vessels are ill suited to meet defense requirements, and the potential strategic value of a Canadian merchant marine is not evident. It is believed that Canada's strategic needs can be better provided for through existing cooperative arrangements with our NATO partners and through agreements with Canadian shipowners who in times of national emergencies would be willing to make their foreign flag fleets available for government use.

4.4.2 Canadian Based Shipping Expertise

Canadian shipping expertise extends over a wide range of shipping activities such as ship acquisition and financing, ship management, ship chartering and brokerage, shipping agencies, freight forwarding and marine insurance.

Some Canadian shipping experts are shipowners. Others can be found within shipping divisions or subsidiaries of large exporting firms. Yet others are consultants or intermediaries such as freight forwarders.

Only to the extent that such expertise is of international quality and freely available in Canada, can our exporters and importers be guaranteed free access to fully competitive transportation services. This collective know-how is essential to the efficient operation of our overseas transportation markets.

A key element within this pool of expertise is the shipowning entrepreneur. Unfortunately Canada has failed to create an environment conducive to the maintenance of shipowning and ship management expertise in this country. It is possible, however, to reverse this trend and even to attract new such talent to Canada in the future.

Canadian shipping entrepreneurs do not ask for subsidies. What they seek is freedom of action without undue government intervention, and a stable and enduring environment in which to operate according to commercial principles and practises common to international shipping.

Cities such as Halifax, Saint John, Quebec City, Montreal, Toronto, and Vancouver already have in place the commercial and financial infrastructure necessary for the further development of Canadian deep-sea shipping activities. In order to promote such development it is necessary for the federal government to initiate action in areas such as taxation, regulations and ship registration.

Steps to strengthen the presence of shipping expertise in Canada cannot be expected to produce great results in the short run. However, it would provide an important signal to the international shipping industry that Canada recognizes its importance to the economy and that it is willing to provide a new environment for shipping entrepreneurs. This can be done without any significant costs to Canada, and the long term benefits could be major.

4.4.3 An Improved Operating Climate for Canadian Deep-Sea Shipping

The decline of Canadian flag deep-sea shipping understandably but regrettably has contributed to the belief that Canada takes no interest in deep-sea transportation. After World War II Canadian taxation made certain provisions for the unique technical and international characteristics of deep-sea shipping. Subsequently these provisions were modified to make the fiscal treatment of international shipping more "equitable" relative to domestic industries. Unfortunately, the effect was to contribute to the elimination of deep-sea shipping under Canadian flag. Past fiscal changes with respect to international shipping, rather than increasing the amount of taxes paid, had for result the loss for Canada of valuable jobs and human resources.

The failure to consider adequately the international environment in which deep-sea shipping operates, is not limited to taxation. It is believed that some regulatory measures and technical standards imposed upon Canadian shipowners have been unduly restrictive, and that they can in some instances adversely affect the ability of Canadian flag vessels to compete in foreign trades.

There is concern that regulatory agencies do not always fully understand the economic and commercial implications of regulatory decisions in the international shipping market and how they can effect the competitiveness of Canadian owners.

There is widespread sentiment that fiscal and regulatory policies and practises applied to deep-sea shipping have at times been based on specific technical considerations or principles rather than on a genuine consideration of the common good for all Canadian interests involved.

The Canadian government must strive to create an operating environment for shipping which is based on cooperation between government and industry and which takes into full consideration the commercial implications of government policies. Measures concerning export industries, whether of goods or services, must be based on the realities of the international marketplace.

4.4.4 Monitoring the International Shipping Environment

The international shipping environment is subject to continuing and significant changes. While on balance this has been beneficial to Canada, there is no guarantee that this will be the case in the future.

It is not possible to forecast future political, technological and economic trends with sufficient accuracy to develop long term policies covering all aspects of deep-sea shipping. It is therefore important that the international shipping environment be monitored on an ongoing basis by those directly affected by changes in international shipping markets, namely shipowners, labour and shippers. By establishing a monitoring body composed of these groups, the government will be in a position to systematically receive pertinent information from those close to the daily realities of shipping. It will also have a most valuable sounding board with which existing and future policies can be explored. Such a monitoring board could also promote a greater recognition of the importance of deep-sea shipping.

4.4.5 Mechanisms for Protecting Canadian Interests Against Foreign Intervention in Shipping

Among the options which have been suggested as being of interest to Canada, is the adoption of so-called defensive legislation. Such legislation would provide for responsive or countervailing measures against foreign governments which impose restrictions or conditions on shipping services of importance to Canada.

Some foreign governments have resorted to cargo reservation specifying the use of their flag in trade agreements. In other cases various administrative procedures have been used to achieve results similar to that of cargo reservation or cargo preference. For instance, giving preference to national flag ships in providing dock space can give rise to costly delays for shippers. Various forms of taxes and fees imposed on foreign tonnage or cargoes carried on foreign vessels also give rise to additional costs to shippers. Such practises are common in certain liner trades and could extend into the bulk trades in the future.

To date discriminatory practises by foreign governments have had limited impact on Canadian trade. Nevertheless there have been specific cases of undue and unacceptable interference by foreign governments with the principle of shippers' right to choose freely the most efficient shipping services.

Canada needs to be able to respond quickly and effectively in such cases. The potential risks involved in any such reaction must be carefully evaluated to avoid the possibility that disputes over shipping questions create an adverse climate for commercial relations with our trade partners.

Defensive legislation could serve both Canadian carriers and shippers. Countervailing measures could be used where a Canadian carrier operating under Canadian or foreign flag is denied equitable opportunities to compete in certain trades as a direct result of unfair practises by a foreign government seeking to promote the narrow interests of its national shipping line.

The objective of so-called defensive maritime legislation should be to protect broader trade interests, and must not be limited to the protection of shipping per se. Its ultimate purpose must be to promote efficient and competitive markets for ocean shipping.

4.5 Concluding Remark

This chapter has emphasized that the nature of the international shipping industry and its environment is such that there presently is limited scope for intervention by the federal government.

In certain specific areas, however, the government can and should take positive action which in the long run will serve to strengthen Canada's competitive posture in international trade and deep-sea shipping. The following chapter presents recommendations to that effect.

CHAPTER 5

RECOMMENDATIONS

INTRODUCTION

Shipping policies cannot be separated from our overall trade policies. There is a great need for a clear and unambiguous maritime policy in which Canada clearly states its intentions with respect to shipping and international trade. To this end, this chapter presents recommendations which we believe to be essential to the maintenance of efficient and competitive deep-sea shipping serving the interests of Canadian trade. Each recommendation is followed by an explanatory note presenting the underlying reasons and intent.

RECOMMENDATION 1

It is recommended that the federal government not take steps towards the establishment of a core deep-sea fleet under Canadian flag.

It has been suggested to us that the federal government should take steps towards the creation of a core deep-sea fleet under the Canadian flag, even if this would require direct operating subsidies or other forms of protection, including reserving a share of Canadian cargoes for Canadian flag vessels.

Benefits put forth as arising from the creation of a Canadian flag fleet are:

- (i) an improved balance of payments position in our trade in services;
- (ii) creation of employment for seamen and officers;
- (iii) expansion of employment in auxiliary industries;
- (iv) strengthened national security.

None of these claims can be substantiated as justifying the creation of a national fleet sponsored or financed partially or totally by the government. While each proposition may have considerable intuitive appeal upon a first examination, they cannot be demonstrated quantitatively or qualitatively to provide an appropriate basis for major changes in Canada's policy with respect to deep-sea shipping.

Balance of Payments Benefits

There are various estimates of the cost of carrying Canadian oceanborne trade. Such estimates as do exist, however, are based on simple extrapolation of typical freight to value of goods ratios, and cannot be cross-checked against actual expenditure. Nevertheless, the often quoted figure of \$5 billion may give an indication of the order of magnitude. An important share of the ocean freight bill is paid for and controlled by our foreign trade partners. Thus, the share of Canada's ocean freight bill which is presently effectively controlled by Canadian firms is substantially less than the total freight bill.

The use of Canadian flag vessels would not result in a complete recovery for Canada of its effectively controlled portion of the deep-sea ocean freight bill which includes costs other than those directly related to the vessel. Port charges, pilotage fees, loading and unloading, storing and other

costs are incurred both in Canadian and foreign ports. Together, they constitute a significant part of the total bill. Such charges and their impact, positive or negative, on our balance of payments would not be significantly affected by the creation of a Canadian flag fleet.

A Canadian flag fleet could contribute to our balance of payments only if it were truly competitive on an international scale. Success in foreign trade, be it of goods or services, comes from concentrating on what we do particularly well relative to other countries and relative to the national economy. Unfortunately, deep-sea shipping under Canadian flag does not enjoy a competitive edge over foreign flag ocean shipping, nor can it be demonstrated to constitute an attractive use of domestic resources.

For a Canadian flag deep-sea fleet to operate without substantial subsidies, it would be necessary to set freight rates at levels above international market rates. This means that it would be necessary to reserve cargoes for Canadian vessels. Such compulsory use of Canadian flag vessels would detrimentally affect Canadian exporters' ability to compete in foreign markets.

In general, the balance of payments argument in favor of the creation of a Canadian flag fleet is spurious unless it can be shown that such a fleet would be fully competitive on commercial terms without any form of subsidies or cargo reservation.

Employment Creation

It has been argued that the establishment and maintenance of a Canadian flag fleet would create employment opportunities for Canadian seamen and officers. However, it is clear that the total number of positions created would be limited.

Deep-sea shipping is no longer a labour intensive industry. Increased vessel size and productivity mean fewer vessels and a reduction in the total number of men onboard. Vessel automation could further reduce manpower requirements. Because of the capital intensive nature of shipping, the amount of capital for each new position created per job would be high and significantly higher than in the economy at large.

By way of example, a modern bulk carrier may require no more than twenty-five men onboard. Allowing for time off, this could mean fifty jobs per vessel. If a total of fifty such vessels were put into service, it could mean the creation of no more than twenty-five hundred jobs over a period of many years.

More important, however, is the fact that Canadian wage levels are considerably higher than prevailing wage levels in the majority of the shipping nations presently serving in our trades. Again, Canadian crewed vessels would require significant operating subsidies in order to survive in international services. This does not preclude the possibility that high cost vessels can operate successfully in certain specialized market niches.

American experience demonstrates that to maintain a presence in competitive shipping markets can be an expensive proposition for the public purse. In 1982, the American government provided U.S. shipowners with more than 400 million dollars (U.S.) in operating subsidies alone. During that same year total subsidy programs amounted to one billion dollars. This represented \$62,000 per onboard position. As there were 2.2 employees per position, subsidies per employee were of the order of \$28,000. Despite this massive outlay, U.S. flag vessels carry only about six percent of American

oceanborne trade, most of it liner traffic. Although some U.S. shipping companies operate without direct subsidies, they do benefit from considerable indirect subsidy in the form of government reserved cargo.

The high cost of maintaining maritime employment in industrialized countries is the major factor behind the decline of these fleets and the employment of seamen. For instance, the total number of persons employed in the British merchant marine declined from 96,000 in 1977 to 46,000 in 1983. During the same period, the number of British nationals onboard British ships declined from 78,000 to 40,000.

A merchant marine would be ill suited as a sector for job creation in Canada because of our high wage and salary scales. Additionally, such a move would represent an attempt to go against a long term trend in OECD countries. While traditional OECD shipping nations in recent years have provided various forms of subsidies to their national fleets, they have done so not to expand employment but in an effort to slow the decline of their national fleets and related employment of nationals. Even traditional maritime countries such as the United Kingdom and Norway are accepting and even facilitating the transfer of vessels to foreign flags as a result of an increasing awareness that the economic difficulties faced by their national flag fleets can no longer be seen as transitory.

In the case of Canada, it is of paramount importance to recognize the fundamental significance of the availability of low cost shipping to our exporters. Any attempt to finance job creation in the merchant marine through higher freight rates and cargo reservation would undoubtedly lead to jobs lost in our export industries. The number of jobs thus lost would be greater than the jobs created in the maritime sector. Finally, it is a fact that job creation through subsidies gives rise to distortions in the allocation of society's scarce resources.

Employment in Auxiliary Services

It is often argued that for every job created in industry, additional jobs will be created in auxiliary industries supplying the sector directly affected by the employment generation programs. This "multiplier" argument, although having both an intuitive appeal and a basis in economic theory, often gives rise to exaggerated claims that tend not to materialize in practise.

In the case of ocean transportation, it is important to recognize that the required auxiliary services are already in place at highly competitive prices. While economic and regulatory factors have essentially eliminated Canadian flag vessels from our deep-sea trades, many Canadians are actively engaged in ocean shipping both at home and abroad. Canadian shipowners and shippers operate or control a significant number of foreign flag vessels serving our trades. Canadians are involved in related activities, such as ports and terminal operations, loading and unloading, brokerage, forwarding, etc.

The creation of a Canadian flag fleet would eliminate an equivalent amount of foreign shipping capacity from our trades. Therefore, the net impact on most auxiliary services would be negligible. The substitution of Canadian for foreign crews, however, would presumably increase domestic purchasing power, and should therefore have some multiplier effect.

Whatever multiplier effects might come from the expansion of auxiliary industries following the creation of a Canadian flag fleet are expected to be small and cannot be used to justify the creation of a Canadian flag fleet unless such a fleet can be demonstrated to be competitive on commercial terms.

Strategic Considerations

It has been stated that a merchant marine represents a significant element in a nation's total defense system. Merchant vessels contribute in various ways to strengthening national security. They can carry troops and their equipment and serve as auxiliary naval vessels. They can serve as supply vessels for forces stationed overseas, and in times of national emergency may also play a role in supporting the national economy by insuring the supply from overseas sources of materials and goods critical to major industries.

Such considerations, however, may be of limited relevance to the question of free access to competitive shipping services for Canadian shippers. Our greatest needs in ocean transport are in the bulk trades. Vessels appropriate for such trades are unsuitable for the transportation of troops and their equipment.

Although Canadian flag bulk carriers could serve to a limited extent as military supply vessels, it would be an expensive and unwarranted undertaking to establish a merchant marine on the basis of its potential military usefulness.

Canada's NATO allies include some of the largest OECD shipping nations with modern merchant fleets which would be available in the event of war. Where the Canadian armed forces have unique transportation needs such needs should be met by the construction and operation of special navy vessels financed under the national defense budget. Under no circumstances would it be justified to require Canada's transport users to finance or pay for the operations of a fleet motivated by national defense considerations.

It would be advisable, however, to plan for government use of Canadian owned vessels in the event of a national emergency. Such plans should cover all Canadian controlled vessels, irrespective of their flag. This point provides the basis for a separate recommendation.

RECOMMENDATION 2

It is recommended that Canada, as a major importing and exporting nation with significant reliance on ocean transportation, encourage and strengthen its expertise and interests in international shipping.

Canada's economic health depends upon the vitality of its export sectors. The continued growth of our foreign trade requires unimpeded access for shippers to an efficient and competitive transportation system of which international shipping is an integral part.

Therefore, it is essential that the federal government take the lead by attaching a higher priority to the understanding and analysis of ocean transportation. Further, it must recognize the importance of maintaining and promoting shipping expertise in the private sector. The major steps by which the government can pursue these objectives are detailed in Recommendations 3 and 4 which follow.

The presence of a strong basis of shipping expertise within Canada is essential in order that Canada may respond more effectively and forcefully to the complex and changing international shipping environment and protect its exports and imports.

International shipping is a complex and composite set of activities of which shipowning is but one element. Other important components of ocean shipping include:

- ship acquisition and financing
- ship management
- ship chartering and brokerage
- shipping agencies
- ship chandlery
- freight forwarding
- marine insurance

An efficient ocean transportation system requires expert and practical knowledge of the above and related activities. Canada benefits from an important reservoir of knowledge in all these areas. In addition to transportation expertise of both shipowners and shippers, Canada benefits from a sophisticated transportation infrastructure, including modern ports linking overseas transportation with a highly developed inland waterway, rail and highway system. Canada's global transportation system must continue to develop and adjust to ongoing changes in international shipping markets.

The implementation of the following recommendations will strengthen Canada's ability to respond to present trends and future changes in deep-sea shipping.

RECOMMENDATION 3

It is recommended that the government create a fiscal environment conducive to the establishment and maintenance of international ship management activities in Canada.

Economic trends beyond the control of the federal government have led to the disappearance of Canadian flag deep-sea shipping. The government can, however, act forcefully to promote and maintain ship management activities within Canada.

Presently, managing a shipping corporation from Canada will subject that corporation to Canadian income taxes even if its vessels are operating exclusively in international trade. As a result, Canadian shipowners have found it necessary to take up residence abroad in order to operate in a fiscal environment consistent with the needs of deep-sea shipping.

Therefore, it is recommended that Canadian tax legislation be modified in order to create a more hospitable fiscal environment for the maintenance and development of ship management expertise in Canada. Specifically, it is recommended that legislation allowing for the creation of "International Shipping Corporations" (ISCs) be adopted. Such legislation should include the following elements:

- (i) An ISC would be a Canadian corporation, resident in Canada, with a majority of Canadian resident directors. It would be required to be majority owned by Canadian residents, either individuals or corporations. The ISC would be managed in Canada, using resident staff and premises.
- (ii) The ISC could own ships (direct or disponent ownership) registered under any flag, including Canadian, directly or through wholly owned foreign subsidiaries.
- (iii) Provided the ISC earned not less than 90 percent of its income from international shipping operations, including capital gains from sale of ships, it would not be taxed in Canada on its income. International shipping would be defined as the operation of a ship in international

traffic as specified in section 248(1) of the Income Tax Act. Such exempt income would include dividends received from wholly owned foreign subsidiaries, provided such subsidiaries were established for the purpose of owning vessels to be used in the business of the ISC.

- (iv) The ISC would be required to file tax returns in Canada and to provide other information as needed to support its status.
- (v) Dividends paid from the ISC to Canadian residents would be taxable in Canada. Dividends paid to non-resident shareholders would be subject to a withholding tax in accordance with section 212(2) of the Income Tax Act, or relevant conventions.
- (vi) Rules would be needed to determine the taxation of income if such a corporation ceased to qualify as an ISC.

It is intended that the fiscal relief recommended above be available irrespective of flag. It would apply to management activities involving titled vessel ownership and disponent ownership (lease or bareboat charters), provided the vessels are engaged in deep-sea international operations. Thus, activities other than ship management, such as freight forwarding, LCL consolidation and inland transportation would not be included in this fiscal relief plan.

While it is difficult to predict the immediate effect of the implementation of this recommendation, it is believed that its long term effect would be most beneficial. It would provide a clear signal to both shipowners and exporters that they may freely operate and manage ships from Canada under tax considerations similar to those prevailing in the United States and in most European countries where various forms of aid to national shipping have the effect that international shipping pays no or minimal income tax.

The cost of taxes foregone by Canada would be close to nil as the overwhelming majority of activities considered under the above recommendation at the present time escape Canadian taxation by operating "offshore". If there is any loss on this account, it would be insignificant, and can be expected to be more than offset in the long run by personal income and other taxes generated by expanded ship management activities in Canada in the future.

The establishment of the ISC should not inhibit Canadian companies from owning in whole or in part, shares of foreign companies managing and operating vessels under Canadian or foreign flag.

It is believed that the implementation of this recommendation will increase the number of Canadian owned vessels which in times of national emergency, could be made available to the government in accordance with the agreement of understanding proposed in Recommendation 5(a) below.

RECOMMENDATION 4

It is recommended that an Advisory Board consisting of representatives from industry, labour and government be created to monitor on an ongoing basis the international shipping environment. This Advisory Board should be created by and report to a Committee of Ministers responsible for transport, trade, external affairs, and industry.

It is further recommended that, upon the advice and counsel of the Advisory Board, the government consider mechanisms enabling it to react in the event of intervention in Canadian shipping markets by foreign governments.

While it has been concluded that changing circumstances in the international shipping environment do not now detrimentally affect Canadian trade interests except in isolated cases, there remains the possibility that present conditions will not prevail in the future.

International shipping is subject to continuous change as a result of diverse and often conflicting forces. The effects of such changes cannot be predicted with any certainty and it is essential that shipping markets be monitored in a systematic fashion by all groups having a direct interest in ocean transportation.

It is therefore recommended that a high level Advisory Board be created in order to monitor and evaluate trends in the international shipping market deemed to be important to Canada's foreign trade.

This Board could further serve as a sounding board for ministers responsible for policies which may have an impact upon or be influenced by changing conditions in maritime transport markets.

The members of the proposed Advisory Board should constitute a cross-section of senior representatives of shippers, shipowners, labour unions and the federal government having an expertise in international ocean transportation.

It is recognized that the government's present approach in dealing with shipping problems is fragmented and not sufficiently coordinated. As a result, the government is often unable to respond quickly to protect Canadian interests in specific instances. It is hoped that the Advisory Board could alleviate this problem by serving as a focal point for policy initiatives and coordination. It is believed that the creation of such a board will foster an improved mutual understanding among those actively interested in ocean shipping, thereby providing a stronger basis for coordinated and effective responses to changing circumstances in international shipping markets.

In general, problems of government intervention which may occur in certain trades from time to time should be resolved whenever possible through commercial negotiations, supported by diplomatic representations as required.

Canada should strengthen its capacity to respond quickly and efficiently to any threats and impediments to trade, manifest in protectionist foreign shipping policies and practises. Such responses by Canada often need to be on a case-by-case basis where time is of the essence. The various ministers having a direct interest in these questions need to develop an ability to respond with a concerted approach in a very short time period which in some cases could be a matter of days or in extreme situations, hours.

In some cases, commercial and diplomatic initiatives may be insufficient to deal with persistent protectionist trade and shipping policies of other nations. It is therefore necessary for Canada to develop legislation enabling it to respond vigorously to protect Canadian trade interests in situations where countervailing measures or the threat thereof, may be the only way to assure free and competitive access to shipping markets. Canada should carefully consider legislation already in place in several OECD countries with a view towards the possibility of undertaking countervailing measures jointly with other OECD countries. The government should actively and aggressively pursue multilateral initiatives to promote and protect the freedom of international shipping markets.

Only as a last resort and after consultation with trade and shipping interests should Canada consider bilateral shipping agreements. In such cases every effort should be made to assure access for third parties or crosstraders to the shipping markets affected by bilateral agreements.

Proposed programs of action and legislation relating to foreign government intervention in Canadian shipping markets should be reviewed by the Advisory Board which advises responsible ministers on the commercial desirability and practicality of the government's policy initiatives in the area of international ocean transportation.

RECOMMENDATION 5

It is recommended that further consideration be given to certain issues which arose during deliberations of the Task Force and which were deemed outside its mandate or technical competence.

(a) Availability of Canadian Owned Vessels in the Case of National Emergency

It is suggested that the federal government initiate discussions with Canadian shipowners in order to develop an agreement of understanding on the availability of Canadian owned deep-sea vessels in an emergency situation.

A significant fleet of deep-sea vessels owned and operated by Canadian nationals is presently operating under various foreign flags. Although not all such vessels are suitable for strategic purposes, some could be most useful in a national emergency. It is believed that these ships could promptly be made available to serve Canadian military needs and to maintain essential commercial services.

The United States has long had agreements with the beneficial owners of the U.S. offshore fleet, the so-called U.S. effectively controlled fleet. Such ships, generally manned by foreign nationals, have repeatedly served the United States during various conflicts. The American government considers the U.S. effectively controlled fleet an important element in its strategic planning.

Canada's strategic needs for ocean transport capacity in the event of international conflicts could be alleviated by existing Canadian tonnage provided the necessary mechanisms are in place to administer the transfer of such vessels to government use.

(b) The Future Role of Arctic Shipping

It is suggested that an appropriate multidisciplinary group be appointed to coordinate and promote Canadian interests in the field of Arctic shipping.

Lead and zinc concentrates are already being shipped from the Arctic. While there is potential for future activity in the movement of oil and gas, it is impossible to predict accurately the timing and levels of such shipments.

The future exploitation of the Arctic will depend on the availability of reliable and economic shipping services. The development of such services represents a technological challenge of considerable magnitude as the hostile marine environment gives rise to extremely difficult operating conditions. Additionally, there is considerable concern for the fragile environment and how it can be best protected in future.

While Canada already has considerable expertise in Arctic navigation and transportation, it is essential that Canada make a strong and concerted effort to remain at the leading edge of Arctic maritime technology.

(c) **Regulations and Technical Standards**

It is suggested that the impact of economic and technical rules and regulations on the ability of Canadian shipowners to compete in international shipping markets be reviewed.

Present economic regulation renders difficult and expensive the operation of Canadian flag vessels in international trade. For example, should a ship require emergency repairs while overseas the vessel would become dutiable upon its return to Canadian domestic trades for its entire value — and not only on the amount of repairs — if it is deemed that the repairs undertaken were not limited to the strict minimum necessary. In fact, Canadian rules could in extreme cases lead to duty being payable each time a Canadian flag vessel resumes operations in domestic trades after having served abroad. Such rules reduce the operational flexibility for shipowners who participate both in cabotage and international trades.

It has been suggested that some uniquely Canadian technical standards by being unduly restrictive, impede the transfer of foreign vessels to Canadian flag. While participating actively in the work of the International Maritime Organization (IMO) towards establishing uniform and adequate standards for safety at sea, Canada has established additional rules and standards some of which go considerably beyond those established by IMO. It is not implied here that safety standards should be relaxed but only that they be reasonable and acceptable by international standards.

**MINORITY REPORT
OF THE
TASK FORCE ON DEEP-SEA SHIPPING**

BY

ROBERT F. COOK, NATIONAL PRESIDENT
CANADIAN MERCHANT SERVICE GUILD

AND

ROMAN GRALEWICZ, PRESIDENT
SEAFARERS' INTERNATIONAL UNION

APRIL 1985

It is with regret and frustration that we are forced to disassociate ourselves from the Report to the Minister of Transport of the Task Force on Deep-Sea Shipping. Regret, because we would have much preferred to be part of a positive move towards the re-establishment of a Canadian flag deep-sea fleet. Frustration, because once again, a spark of optimism about the creation of such a fleet, has been snuffed out in this Report — we hope only momentarily.

When the former Minister of Transport (Mr. Axworthy) approached us early in 1984 to sit on the Task Force, we understandably had some reservations. First, as a matter of record, since the Second World War, it was primarily a succession of Liberal administrations that had failed to integrate maritime policies with overall industrial and trade policies. Second, it was obvious that a federal election was then in the not-too-distant future; therefore, the Task Force had to be viewed to a certain extent, as part of a pre-election strategy. Third, we were concerned that the membership of the Task Force was too heavily oriented to the interests of the users of shipping services. Lastly, we felt that the Terms of Reference were narrowly-based and insufficiently directive in terms of promoting the case for a deep-sea fleet.

Nevertheless, in spite of these apprehensions, we accepted the invitation to join the Task Force, believing that our input would have some impact on its outcome. Unfortunately our disillusionment set in early in the process and never abated.

The Report takes its cue from five words in the Terms of Reference. To quote: "... the task force is charged with ... defining options for and recommending upon government policies or programs which might be modified or adopted to improve Canada's shipping industry **without detrimentally affecting Canadian trade.**" (emphasis added)

From beginning to end, the Report leans on the phrase "without detrimentally affecting Canadian trade", thereby arriving at its main recommendation that "the federal government not take steps towards the establishment of a core deep-sea fleet under Canadian flag." Why? Because, for a variety of reasons, Canadian shipping would not be competitive presently, with many foreign alternatives.

Surely, in 1985, none of us familiar with the international shipping market, need a year-long Task Force to repeatedly reinforce that message. It is a message that dates back to the dissolution of the Canadian fleet in the late 1940's and that has effectively blocked serious consideration of its revival ever since. It is a message that comes straight from the boardrooms of the major users, principally the large exporters of our natural resources. We do not quarrel with their right to argue their own commercial self-interest. On the other hand, we did expect a federal Task Force to present a fair and balanced picture in the overall national interest. Instead, we are faced with yet another reiteration of the users' point of view.

The opening chapter of the Report states: "Canadian deep-sea transportation needs are highly diverse and can only be satisfied by free access to a competitive shipping market. Therefore, over time, Canada has come to rely almost exclusively on foreign flag shipping to serve our trades ... It is difficult to quantify Canada's future deep-sea transportation needs and what type of ships would be required."

It is little wonder, given such a biased beginning, that the Report concludes: "Under present circumstances it would be impossible to envisage a Canadian flag fleet paying Canadian wages in competition with foreign shipowners operating under a different fiscal and regulatory regime. Furthermore, it cannot be demonstrated that at the present time there is any need for such a fleet to serve Canadian trade interests."

Consequently, within the confines of its incomplete analysis, the Report is coherent from start to finish. In the process, however, it either ignores or quickly dismisses several significant factors. It overrides the shipping industry, both management and labour, Transport Canada's discussion paper (**Canadian Deep-Sea Shipping Policy: Meeting New Challenges**, June 5, 1984) and other analyses of the benefits of a deep-sea fleet.

A brief review of these other sources of informed opinion serves to illustrate the Report's deficiencies.

The joint submission to the Task Force by the Canadian Shipowners Association and the Dominion Marine Association (July 1984) advocates: "the gradual development of Canadian flag deep-sea shipping capacity through the creation of a fiscal and operating environment which would allow Canadian shipowners to become competitive in selected segments of the world shipping market." Noting that a Canadian merchant fleet would provide significant long-term benefits to the national economy and that the absence of a program to develop a Canadian presence in international shipping (given foreign government intervention), carried with it significant economic risk, the CSA/DMA went on to argue for appropriate fiscal incentives. When questioned during his appearance before the Task Force, Admiral Timbrell of the DMA indicated that, with appropriate government support, up to fifty deep-sea vessels could be operating competitively under the Canadian flag within a few years.

The Canadian Labour Congress' Council of Maritime Unions (of which we are a part), in its submission (July 1984) identified several reasons — sovereignty, vulnerability to foreign shipping, direct (both on board and in shipbuilding/repair) and indirect (e.g. steelmaking) employment, balance of payments, tax revenues and the reality of Canada as a trade and ocean-bound nation — why Canada should pursue “a strategy that combines repatriation and a shipbuilding and repair program, in order that, over time, as older vessels are replaced with more technologically-advanced ships, the Canadian deep-sea fleet would be completely Canadian built, registered and crewed.”

The above-mentioned **discussion paper** documents several reasons for the development of a Canadian-flag deep-sea fleet. These include: the potential for economic development opportunities in a large and diversified industry, the protection of long-term Canadian interests in an industry affected by interventions of foreign governments, consideration of strategic factors such as sovereignty over Canadian waters, environmental protection, balance of payments and national defence.

A 1981 report prepared for Transport Canada's Canadian Marine Transport Administration by the IBI Group (**Economic Benefits of a Canadian Merchant Marine**) quantified in dollar terms the benefits of Canadian flag operation on increases in total economic output, increases in direct government receipts and increases in foreign exchange earnings.

And, as far back as the 1970 Hedlin Menzies report to the Canadian Transportation Commission and in several independent studies since, **selective** market opportunities have been identified as available and worth pursuing. Hedlin Menzies for example, concluded that large capital intensive bulk carriers could be economically viable. The basic point is that the development of a Canadian deep-sea fleet would have to begin somewhere, the most logical place being in those trades where market niches are open.

In other words, there are a number of convincing arguments in favour of the gradual development of a Canadian-flag deep-sea fleet — arguments that have not been adequately addressed in the Task Force Report.

Ironically, the Report acknowledges the presence of a Canadian Great Lakes fleet. The Great Lakes/Seaway fleet is well managed, many of the ships are equipped with innovative cargo systems and advanced propulsion systems and it demonstrates to a high degree the ability to be sensitive to the needs and problems of the shippers who use its services. This situation has resulted from subsidies for shipbuilding to encourage the modernization of the Great Lakes fleet, as well as a 1965 amendment to the Canada Shipping Act which restricted the coasting trade within the St. Lawrence River and Seaway to Canadian flag vessels. One wonders, had the open registry logic of this Task Force been accepted, whether even the Great Lakes/Seaway fleet would exist today.

The Report's recognition of the Great Lakes/Seaway fleet is difficult, if not impossible, to reconcile with its recommendation that the government create a more hospitable fiscal environment for the establishment and maintenance of shipping management expertise in Canada. Its proposal — that Canadian tax legislation be modified to allow for the creation of “International Shipping Corporations” (ISC) — would amount to nothing more than “paper” repatriation. It would reward corporations such as Canadian Pacific Ltd. which have established foreign subsidiaries to operate their fleets under foreign flag and with foreign crews. We completely reject this option. These ISC's could continue to operate under foreign flags and with foreign crews, but because they would be Canadian corporations their ships could be designated as Canadian for the purposes of the UNCTAD 40-40-20 shipping formula. This would permit easy circumvention of the real intent of the UNCTAD formula. Instead of the “sleight-of-hand” ISC scheme, we believe that building on existing domestic expertise, especially the ocean-going lakera, would not only result in more economic benefit to Canada but would also help sustain those ship operators that have demonstrated a commitment to Canadian interests in shipping.

In summary, we remain convinced that a Canadian-flag deep-sea fleet is not only desirable, but also viable given the proper support. Issues such as job creation, arctic/offshore resource activity, excessive reliance on foreign flag shipping to carry our exports and imports, the impact of cargo reservation and other unilateral, bilateral and multilateral shipping arrangements and the potential for specialized ships for particular trade, all need to be included in a re-examination of a deep-sea fleet.

The Report observes that "Despite Canada's dependence on international trade and deep-sea shipping to maintain a healthy and strong economy successive Canadian governments over the last few decades have attached only a low priority to maritime transportation". It then proceeds to carry on that tradition of neglect in a distorted, one-sided manner.

The CLC's submission began by stating that "too much dust on too many previous reports and studies serve as a reminder of lost opportunities and foregone benefits to Canada." In the case of this Report, we can only say, let the dust settle and fast.

Our concluding comment to the Progressive Conservative government and the Minister of Transport especially, would be to ignore this Report and, as a starting point, go back to the last Tory government's Speech from the Throne (October 9, 1979) which expressed commitment to the development of an effective Canadian merchant fleet. The Minister will also be aware that his department (also in October 1979) issued a **Background Paper on Deep-Sea Shipping** which supported the desirability of putting in place measures to encourage the gradual development of a Canadian deep-sea fleet.

We are prepared now to give the Minister our assurances that, despite many disappointments, we are more than prepared to co-operate with any initiative that builds upon that kind of positive approach. More than enough time, including the life of this Task Force, has been wasted.

APPENDICES

TERMS OF REFERENCE FOR THE INDUSTRY/LABOUR TASK FORCE ON DEEP-SEA SHIPPING

The task force is established to determine whether changing circumstances have affected the international shipping market in a direction and to a point where Canadian trading interests could be detrimentally affected and where the Canadian government should take action to encourage the expansion of the Canadian deep-sea fleet.

Should such action be deemed appropriate, the task force is charged with:

1. identifying any factors which are inhibiting the growth of this industry in Canada, and
2. defining options for and recommending upon government policies or programs which might be modified or adopted to improve Canada's shipping industry without detrimentally affecting Canadian trade.

Within this latter task, the panel is to determine whether there is a need for blanket or selective incentives, and, if so to recommend the nature of such incentives as would be consonant with Canadian needs. Further it is to determine what, if any, defensive measures the government should be taking to protect Canadian interests against the intervention by foreign governments in the shipping market.

In meeting its objectives the panel should take into account such factors as the following:

1. views of all potentially affected Canadian interests including shippers, shipowners, labour;
2. transportation requirements of Canadian importers and exporters with respect to levels of service and cost;
3. the impact of its recommendations upon all Canadian interests including importers, exporters, and carriers;
4. current and potential participation of Canadian carriers in the world market under current and modified government policies;
5. the economic and other benefits and risks associated with continued reliance by Canada on the international shipping market including:
 - effects on Canada of the efforts of other governments promoting their fleets, and
 - the ability of Canada to act in times of national emergency.

COMPOSITION OF TASK FORCE

Theodore M. Allen
Vice-President,
United Grain Growers,
Taber, Alberta

Anne G. Burnett
Manager,
Offshore Project,
Fednav Limited,
Montreal, Quebec

Pierre Camu
Vice-President,
Lavalin Inc.,
Ottawa, Ontario

The Honourable John V. Clyne
Vancouver, British Columbia

Robert F. Cook
National President,
Canadian Merchant Service Guild,
Ottawa, Ontario

Gary S. Duke
Vice-President,
Government Relations,
British Columbia Resources Investment Corp.,
Vancouver, British Columbia

David K. Gardiner
President,
Misener Transportation Ltd.,
St. Catharines, Ontario

Roman Gralewicz
President,
Seafarers' International Union,
Montreal, Quebec

Trevor D. Heaver
Director,
Centre for Transportation Studies,
University of British Columbia,
Vancouver, British Columbia

George E. McClure
Senior Executive,
McCain Foods Ltd.,
Toronto, Ontario

Robert J. Paterson
Vice-President & Director,
N.M. Paterson & Sons Ltd.,
Thunder Bay, Ontario

Gunnar K. Sletmo — Chairman
Professeur Titulaire,
Ecole des Hautes Etudes Commerciales,
Montreal, Quebec

Ian G. Stott
President,
Stott Aluminum Corp.,
Sydney, Nova Scotia

Rupert J. Tingley
President & General Manager,
CN Marine,
Moncton, New Brunswick

Gail L. Zahradnitzky — Executive Secretary
Senior Economic Advisor,
Shipping Policy Development,
Transport Canada,
Ottawa, Ontario

RECORD OF SUBMISSIONS TO THE TASK FORCE ON DEEP-SEA SHIPPING

INDIVIDUALS

Mr. A. Baldwin
St. Alberta, Alberta

Mr. J.S. Mannall
Vancouver, B.C.

Mr. A. Farinha
Parksville, B.C.

Capt. E.M. Rocic
Nanaimo, B.C.

Capt. R.L. Hinder C.D.
Richmond, B.C.

Mr. D. Miller
Vancouver, B.C.

Mr. C. Malka
Mont-Royal, Québec

Capt. E.P. deCunha
Victoria, B.C.

Mr. F. Zahra
Willowdale, Ontario

Mr. L. Elliston
Montreal, Québec

Mr. J. Gallagher
Dartmouth, Nova Scotia

Mr. R.E. Barron
Scarborough, Ontario

Mr. J.R. Johnstone
Vancouver, B.C.

Mr. K.K. Alwood
Delta, B.C.

Mr. P.I. Westby
Whonnock, B.C.

Mr. P.R. Charter
North Vancouver, B.C.

Mr. B. Hoddinott
Vancouver, B.C.

Mr. T. Bruusgaard
Vancouver, B.C.

Mr. R.H. Matheson
Nun's Island, Montreal, Québec

Mr. M. Nash Kelly
Viewmount Allen Heights
Head of St. Margarets Bay, N.S.

Mr. J.S. Cooper
Montreal, Québec

Mr. B. Clark
Ottawa, Ontario

Dr. J.D. DeJong
Montreal, Québec

Commander W.D. McRitchie
Gloucester, Ontario

Mr. G.E. Kristinsson
West Vancouver, B.C.

Mr. J.M. Reyes
Vaudreuil, Québec

COMPANIES, CORPORATIONS

Potash Company of Amercia
Sussex, N.B.

St. Regis (Alberta) Ltd.
Hinton, Alberta

Consolidated Durham Mines &
Resources Ltd.
Prince William, N.B.

McIntosh, Taylor & Associates
Manotick, Ontario

Heath Steele Mines Ltd.
Newcastle, N.B.

Acres Consulting Services
Toronto, Ontario

Peter R. Church & Associates
Toronto, Ontario

Bowater Mersey Paper Co.
Liverpool, N.S.

Fraser Inc.
Edmundston, N.B.

Flax Growers Western Canada
Regina, Saskatchewan

PCS Sales, Mr. D.E. Logsdail
Saskatoon, Saskatchewan

FP Fishery Products Ltd.
St. John's, Newfoundland

Montreal Shipping Inc.
Montreal, Québec

Canada Packers Incorporated
Summerside, P.E.I.

Boise Cascade Canada Ltd.
Newcastle, N.B.

J.D. Irving Ltd.
Saint John, N.B.

Cape Breton Development Corp.
Sydney, N.S.

Canadian Pacific
Montreal, Québec

Henderson Lumber Co. Ltd.
Montreal, Québec

Canpotex Limited
Toronto, Ontario

Noranda Sales Corporation Ltd.
Toronto, Ontario

Anglo Canadian Shipping Co.
Vancouver, B.C.

German & Milne Inc.
Ottawa, Ontario

Cansulex Ltd.
Vancouver, N.S.

National Sea Products Ltd.
Halifax, N.S.

MacMillan Bloedel Ltd.
Vancouver, B.C.

ASSOCIATIONS, FEDERATIONS, SOCIETIES

Mining Society of Nova Scotia
Glace Bay, N.S.

Marine Workers Federation
CLC
Halifax, N.S.

Canadian Labour Congress
Ottawa, Ontario

Canadian Export Association
Ottawa, Ontario

Mining Association of Canada
Ottawa, Ontario

Coal Association of Canada
Calgary, Alberta

Canola Crushers of Western
Canada
Winnipeg, Manitoba

Canadian Shipbuilding and Ship
Repair Association
Ottawa, Ontario

Palliser Wheat Growers
Association
Regina, Saskatchewan

The Canadian Industrial League
Toronto, Ontario
The Canadian Chemical
Producers' Association
Ottawa, Ontario

Canadian Pulp & Paper
Association
Montreal, Québec

Atlantic Provinces
Transportation Commission
Moncton, N.B.

Canadian Merchant Service
Guild.
Montreal, Québec

Alberta Wheat Pool
Calgary, Alberta

La Chambre du Commerce de Montreal
Montreal, Québec

Vancouver Board of Trade
Vancouver, B.C.

The Navy League of Canada
Ottawa, Ontario

The Naval Officers Associations
Montreal, Québec

Canadian Shipowners Association
& Dominion Marine Association
Ottawa, Ontario

Council of Forest Industries of
British Columbia (COFI)
Vancouver, B.C.

Halifax-Dartmouth Port Development
Commission
Halifax, N.S.

Pacific Coast Maritime Council
Vancouver, B.C.
Annapolis Valley Affiliated
Boards of Trade
Middleton, N.S.

Saskatchewan Canola Growers
Association
Saskatoon, Saskatchewan

Exporters' Coalition on Canadian
Maritime Policy
Ottawa, Ontario

Prairie Farm Commodity Coalition
Regina, Saskatchewan

The Canadian Manufacturers' Association
Charlottetown, P.E.I.

GOVERNMENT

Manitoba, Department of
Highways & Transportation
Winnipeg, Manitoba

Emergency Planning Canada
Ottawa, Ontario

Conseil Economique du N.-B.
Moncton, N.-B.

Regional Industrial Expansion
Ottawa, Ontario

Alberta Economic Development
Transportation Services
Edmonton, Alberta

External Affairs
Ottawa, Ontario

Saskatchewan Minister of
Highways & Transportation
Regina, Saskatchewan

Gouvernement du Québec-Projet
Saint-Laurent
Québec, Québec

Indian & Northern Affairs
Canada
Ottawa, Ontario

Strategic Policy Secretariat
Ministry of Transportation &
Communications
Downsview, Ontario

OTHER

CEGEP de Rimouski
Rimouski, Québec

Capt. G. Turnbull on behalf of
the PACIFIC MARINE TRAINING
INSTITUTE
North Vancouver, B.C.

Mr. G. Trevor Walker
Georgian College of Applied
Arts and Technology

**LIST OF TECHNICAL EXPERTS WHO APPEARED BEFORE
THE TASK FORCE ON DEEP-SEA SHIPPING**

The following technical experts appeared before the Task Force upon request to provide information about the policies and programs which are the responsibility of their department or agency:

Emergency Planning Canada

Mr. S.N. White

Mr. W. Yost

Finance Canada

Mr. L. Farber

Mr. J.M. Déry

Mr. P. Cameron

Mr. M. Redden

Dept. of Regional & Industrial Expansion

Ms. C. Liljefors

Mr. A. Meloche

Mr. S. Corneau

Mr. G. Wendt

Transport Canada

Mr. J. Allan

Mr. R. Quail

Mr. M.T. Hubbard

Mr. J.J. Brooks

Mr. J. Anderson (in conjunction with Emergency Planning Canada)

External Affairs

Mr. S. Heeney

Mr. D. Pelkola

Mr. B. Côté

Canadian Transport Commission

Mr. J. MacAngus

Mr. B. Kelso

Export Development Corporation

Mr. C.G. Thompson

Canadian International Development Agency

Mr. T. Lukaszewicz

Dept. of Supply and Services

Mr. W.L. Ross

GLOSSARY OF TERMS

Bulk	— Cargoes that are shipped unpackaged either dry, such as grain and ore, or liquid, such as petroleum products. Bulk service generally is not provided on a regularly scheduled basis, but rather as needed, on specialized ships, transporting a specific commodity.
Beneficial Owners	— The owners who receive the benefits or profits from the operation.
Cabotage	— Reservation of a country's coastal or domestic shipping to its own national flag vessels.
CIF	— Cost-Freight-Insurance; exporter's price which includes the ocean transportation cost and insurance coverage
CMEA (COMECON)	— Council for Mutual Economic Assistance, a Soviet-bloc organization comprising: Bulgaria, Cuba, Czechoslovakia, East Germany, Hungary, Poland, Romania, Vietnam, North Korea and the Soviet Union.
Conference (liner)	— A group of ocean carriers providing liner services on common trade routes and collectively agree on rates and service.
Coastwise	— Domestic shipping routes along a single coast.
Combo	— Modern type of cargo liner where cargo space is designed to accommodate standard container sizes, also able to carry break bulk cargoes.
Crosstrade	— Foreign trade between two countries carried by ships from a nation other than the two trading partners.
EUSC	— U.S. Effective Controlled Fleet; merchant ships owned by United States citizens or corporations and are registered under flags of “convenience” or “necessity”; while the fleet is not U.S. flag it is effectively under U.S. control by virtue of the ship's owners and can be called to serve U.S. interests in time of emergency.
Flag of Convenience (FOC)	— Registries for vessels which usually offer favorable tax structure and regulations and are basically open to anyone satisfying minimal conditions; these include Panama, Liberia and Honduras.
FOB	— Free on Board, exporter's price which does not include ocean transportation cost but does include loading on board the vessel.
ILO	— International Labor Organization

IMO	— International Maritime Organization, formerly known as the Inter-Governmental Maritime Consultative Organization (IMCO), coordinates international maritime safety practices.
ITWF/ITF	— International Transport Workers Federation.
LCL Consolidation	— “less than car load” originally referred to rail car and now applied to containers, it refers to consolidation of packages which individually are too small to fill a container.
Liner Service	— Vessels operating on fixed itineraries or regular schedules and established rates available to all shippers.
MarAd	— U.S. Maritime Administration
NATO	— North Atlantic Treaty Organization
OBO	— Ore-bulk-oil, a combination carrier designed to transport combinations of petroleum, ore and dry bulk commodities.
ODS	— Operating differential subsidy: a direct subsidy paid to U.S. flag operators to offset the high operating costs of U.S. flag ships (compared to foreign-flag counterparts).
OECD	— Organization for Economic Cooperation and Development
RO/RO	— Roll-on/roll-off; ships designed to allow trucks or other vehicles to drive on with trailers of cargo.
Shippers	— Individuals or businesses who purchase transportation services for their goods or commodities.
Tonne	— Metric tonne (1000 kilos)
Tons Deadweight (DWT)	— The weight in tons (2240 lb.) of cargo, stores, fuel, passengers and crew carried by the ship when loaded to maximum summer load line.
Tramp Service	— Vessels operating without a fixed itinerary or schedule or long term charter contract.
UNCTAD	— United Nations Conference on Trade and Development.

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